FINANCIAL MANAGEMENT IN THE OPERATING FORCES OF THE NAVY

By

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INTRODUCTION

The Congress granted the Navy Department $16.9 billion to finance operations in Fiscal Year 1968.[1] Of this amount, $198 million, or slightly more than 1 per cent, was earmarked to finance the procurement of operating supplies and minor equipment required to sustain the daily needs of the Operating Forces.[2] Items purchased by these funds are chargeable repair parts[3] for consumption aboard vessels; consumable items of supply, such as cleaning gear, paint, office and administrative supplies; hand tools and equipment, such as minor test equipment, portable power tools, mess gear, special clothing, office equipment, and limited quantities of habitability items.

As a percentage, the amount being discussed is minute. However, its management has been high on the Navy's list of continued problem areas. The problem revolves around the necessity for allocating these operating funds to the lowest organizational level possible--namely, the units of the Operating Forces.

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[1] U.S., Department of the Navy, Office of the Comptroller, Department of the Navy Budget Digest, Fiscal Year 1968 (NAVSO P-1355), December 15, 1967.

[2] Ibid., p. 15.

[3] See NSA Material in Appendix B for definition of chargeable repair parts.

Each unit, a completely mobile weapons or support system of high endurance, must account for and manage its appropriated funds under the same rules and regulations that govern all defense activities. These operating funds flow from the Congress through the Bureau of the Budget, the Secretary of Defense, the Secretary of the Navy, and the Comptroller of the Navy to the Chief of Naval Operations,[1] who is the administrative head of the Operating Forces. The major claimants of these funds in the Operating Forces are the fleet commanders but the final administrators are the type commanders, who are held legally responsible for the funds to the Congress.[2] The type commanders administer the funds in a decentralized manner by authorizing the respective commanding officers of the ships or units of their command to obligate them. In terms of financial management procedures, the type commander and his commanding officers are responsible for the functions of budget formulation and budget execution.

The objective of this paper is to investigate the systems used by type commanders in carrying out their budget execution responsibilities and to gain an insight into the underlying philosophies and procedures therefor.

The subject is approached by investigating factors and constraints placed on or affecting the type commander in carrying out the mission.

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[1] Hereafter the Secretary of the Navy, the Comptroller of the Navy and the Chief of Naval Operations will be referred to by the acronyms SECNAV, NAVCOMPT, and CNO.

[2] Organizational structure and definition of organization responsibilities will be covered in Chapter I.

The major areas of interest are the organizational relationships that bear on the financial management function; the financial management cycle in the Department of Defense and the Department of the Navy; the appropriation structure; material management in the fleet; fleet accounting procedures; and the major studies recently conducted in this area.

Material for this paper has been gathered from two type commanders (the Commander, Cruiser-Destroyer Force, U.S. Atlantic Fleet, and the Commander, Amphibious Force, U.S. Atlantic Fleet);[1] the NAVCOMPT; the CNO Budget Office; and several offices of the Naval Material Command.

A major factor in this study is the recent reorganization of the command and financial structures of the Navy Department and the effects of the Resource Management Systems[2] in the Office of the Assistant Secretary of Defense (Financial Management). This program has attempted to implement sweeping conceptual changes in organization and financial management in the Department of Defense. Both of these factors have kept the financial management segment of the Navy in a constant state of flux for the past eighteen months. Because of this, many previously well-defined and well-documented procedures are daily being changed or are currently insufficiently documented. This paper will show that the

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[1] Hereafter, the Commanders of the Cruiser-Destroyer Force, U.S. Atlantic Fleet, and the Amphibious Force, U.S. Atlantic Fleet, will be referred to by the acronyms COMCRUDESLANT and COMPHIBLANT. The acronyms CRUDESLANT and PHIBLANT refer to the units of the force.

[2] Hereafter the Resource Management Systems will be referred to by the acronym RMS.

majority of these changes are beneficial but are at the present time elusive to the academic writer.

Because of the large number of "in-house" Navy terms and acronyms used in this paper, a glossary of acronyms and a definition of terms are included as Appendices A and B.

CHAPTER I

THE COMMAND AND MANAGEMENT STRUCTURE OF THE NAVY

Bilinear Structure

Navy organization has historically emphasized the operational chain of command, the service or support functions being considered as separate operations. This thinking resulted in what was known as a bilinear organizational structure (Figure 1), which recognized a consumer-producer relationship between the Operating Forces of the Navy and the logistical support organizations. Under this concept, the Navy was divided into three major segments: (1) the Operating Forces, under the CNO, consisting of the operational units and their direct support forces; (2) the Material Support Establishment, headed by the Chief of Naval Material, made up of four material bureaus which provided material support to the Operating Forces through a system of field commands; and (3) the other supporting organizations segment comprising a number of staff functions that included personnel, comptroller, medicine, and research and development.[1]

Within this framework, the CNO was completely dependent upon the support establishments for all material support. The Operating Forces

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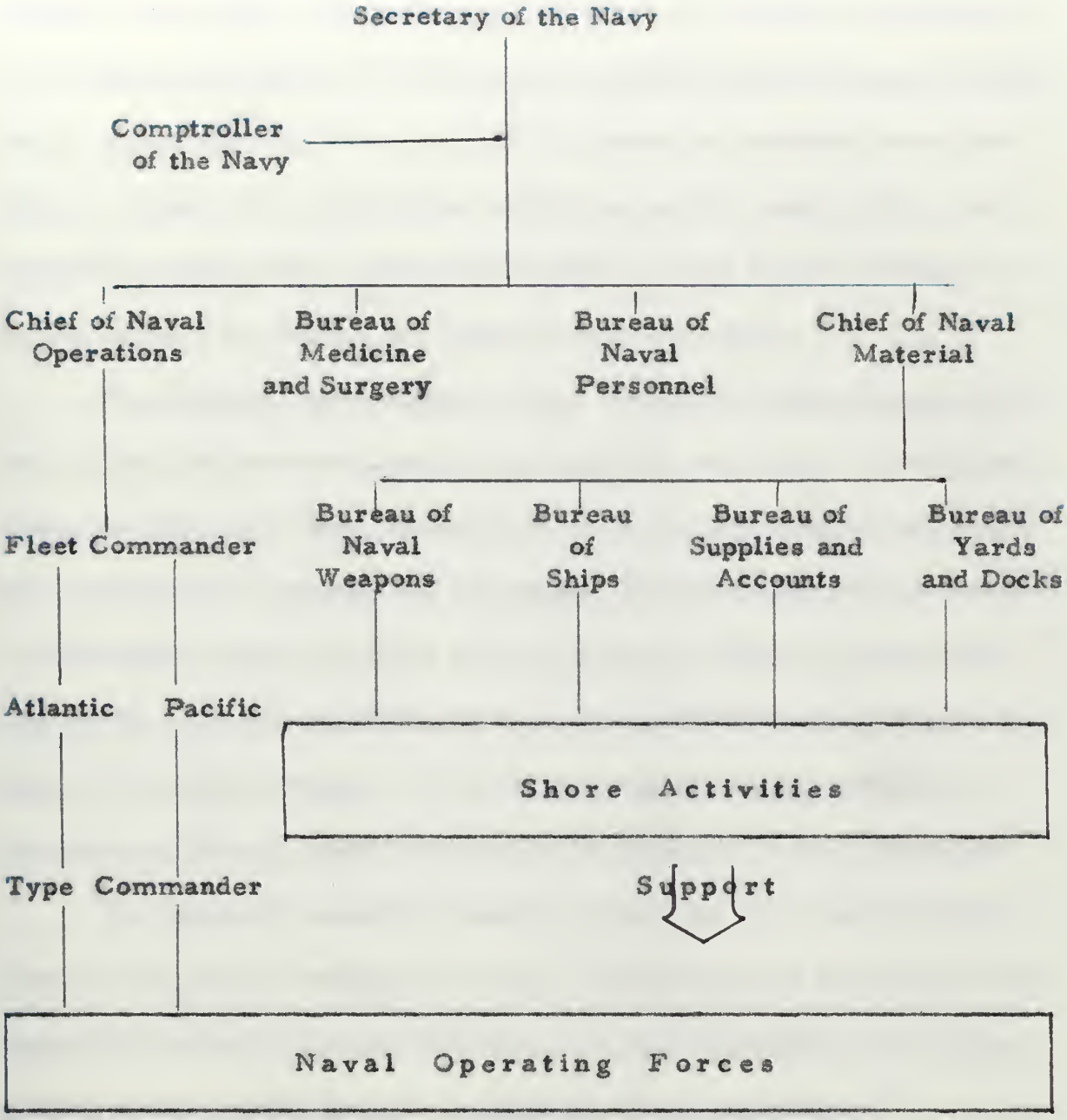
[1]The Department of the Navy also includes the Marine Corps. Because Marine Corps organization and operation does not affect the discussion of this paper, it is not considered.



Note: This figure has been designed to fit the context of this paper; complete organizational charts of the bilinear organization are not available. A complete bilinear chart can be reconstructed by comparing this chart with current organization charts found in Chapter II of Logistic Support of the Navy, NAVPERS, 10495, 1965

Fig. 1.--Bilinear organization of the Navy

obtained this support either through free issue of materials and services or through procurement from the support establishment with appropriated funds. Approximately 80 per cent of the resources consumed were free issue.[1] Funds were required for such items as ship repair, fuel, non-reparable repair parts, consumable supplies, and a small assortment of services, such as printing and business machine repair.

The material bureaus were funded through an appropriation allocation system that provided funds according to the function to be performed. Thus, the Bureau of Ships managed all funds that pertained to ship building, conversion, overhaul, and operation. The Operating Forces received an allocation of operating funds from the Bureau of Ships to procure the chargeable resource requirements from the material bureau. Figure 1 showed this funds flow path. Under this arrangement the operational commanders did not control or manage the total cost of their operation.

The financial structure described above was the result of Hoover Commission recommendations of 1949,[2] which prompted the Congress to convert the budget to a functional base, and thus appropriate moneys for a total function rather than for specific objects of expenditure.[3]

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[1] U.S., Department of Defense, OASD (Comptroller), A Primer on Project PRIME, April, 1967, p. 13.

[2] Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting, February, 1949, p. 8.

[3] The appropriation structure is discussed in Chapter III.

Unilinear Structure

In May, 1966, the Navy shed its bilinear structure and reorganized in a unilinear manner.[1] (See Figure 2.) The basic purpose of the reorganization was to subordinate the Material Establishment to the CNO. At that time there was no change in the financial management structure. This reorganization caused all but two of the bureaus to lose their status as central executive offices of the Navy and moved them to a field level. The Bureau of Naval Personnel and the Bureau of Medicine and Surgery retained their former status. With this change in status the bureaus changed their titles to systems commands.

Under the unilinear structure the CNO commands both the operational commanders and the material or logistic support organization. As the operational commander, the CNO has directly under him the commanders of the two major fleets--the Atlantic Fleet and the Pacific Fleet--plus the Commander, U.S. Naval Forces, Europe, and the Commander, Naval Air Training.[2] The fleet commands provide ready naval forces to the Joint Chiefs of Staff, who are responsible for carrying out national defense policy. Because of this, the fleet commanders report to the CNO

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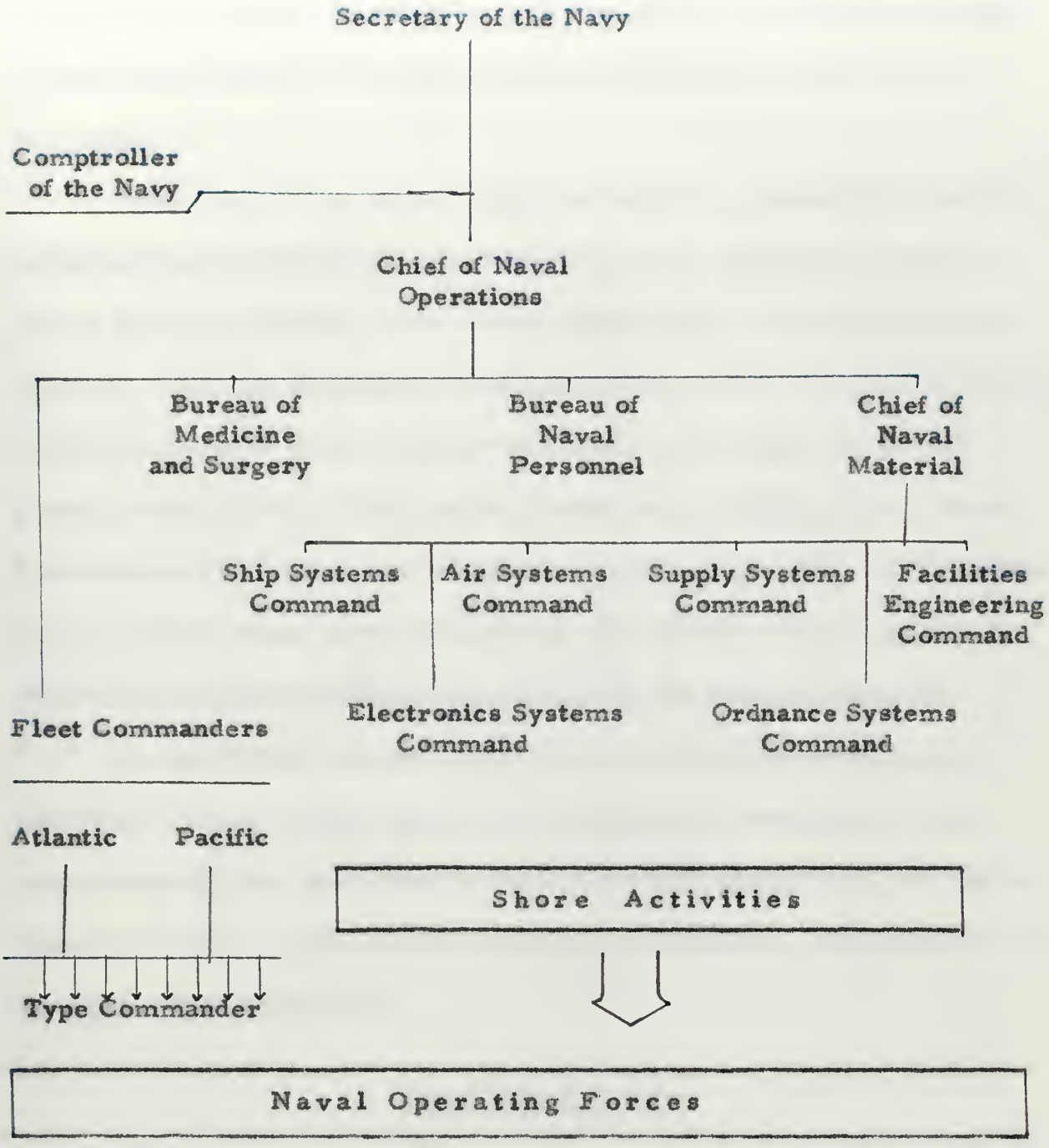
[1] Scot MacDonald, "How the Decision Was Made: Exclusive Inside Story of Navy Reorganization," Armed Forces Management, May, 1966, p. 72.

[2] The Commanders of U.S. Naval Forces, Europe, and Naval Air Training are listed here to show the complete command structure of the CNO. Because they are not included in the scope of this paper, they will be deleted from all comments or further figures concerning the CNO organization.



Note: This figure has been designed to fit the context of this paper. Complete organizational charts of the Department of the Navy may be found in Chapter II of Logistic Support of the Navy, NAVPERS, 10495, 1965.

Fig. 2. --Unilinear organization of the Navy

on matters concerning training, logistical support, and administration and receive their operational orders from the Joint Chiefs of Staff chain of command.

Each fleet is a separate entity, but both have substantially identical organizational structures. At the third echelon of operational command lie the type commanders, under whom similar types of ships or units are grouped. The type commands within the two fleets are: Amphibious Force, Cruiser-Destroyer Force, Submarine Force, Mine Force, Naval Air Force, Service Force, Fleet Marine Force, and a training force. Each type command is further subdivided into flotillas, squadrons, and divisions, but these three levels serve primarily to coordinate matters and consolidate communications between individual ships and the type command.

In July, 1967, further changes were made in the organizational structure. These changes placed all direct support activities of a type command under the operational control of the type commander, and operational funds were routed to follow the chain of command. This subject will be discussed in Chapter III.

Fleet Organization

The headquarters staffs of the Commander in Chiefs of the Atlantic and Pacific Fleets include a Deputy Commander and eight divisions. These are: Administrative; Intelligence; Operations; Logistics; Communications; Plans; Medical; and Dental. The Operations and Logistics divisions are counterparts of those at the CNO level.

The staff of a type commander parallels that of a fleet commander; thus, the function responsibilities of the CNO flow to the type commander.

Type commanders receive administrative and technical direction from the material commanders of the naval material organization and the staff assistants to SECNAV.

Shipboard organization is prescribed by U.S. Navy regulations, 1948. The commanding officer of a ship is charged with absolute responsibility for the safety, well being, and efficiency of his command. The basic administrative divisions of a ship are: navigation; operations; weapons (or deck); engineering; supply; and air (aboard aircraft carriers).

The commanding officer of a ship is responsible for the administration of material support and the funding of operations at the shipboard level. However, regulations provide for the delegation of this responsibility to the ship's supply officer.

The supply officer's duties are summarized as follows:

> . . . Responsible, under the commanding officer, for procuring, receiving, storing, issuing, shipping, transferring, selling, accounting for, and while in his custody, maintaining all stores and equipment of the command. In carrying out this responsibility, he shall:
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> 1. Administer the ship's supplies and equipage funds so that all essential material requirements are met.
> 2. Coordinate preparation and submission of departmental operating budgets if desired by the commanding officer. . . .[1]

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[1] U.S., Department of the Navy, Bureau of Naval Personnel, Naval Orientation, NAVPERS 16138-E, Revised 1963.

CHAPTER II

THE FINANCIAL MANAGEMENT CYCLE

The financial management cycle in the Department of Defense begins when the long-range strategic plan for defense is converted to programs and is completed when the yearly segment of the plan--the budget--is carried out. This planning, programming, and budgeting system is the principal management tool with which the Secretary of Defense molds a comprehensive, world-wide plan of action.[1] Objectives are set, programs are mapped out for their accomplishment, and budgets are prepared to finance the approved programs.

Planning, Programming, and Budgeting in the Department of Defense

Modern military planners have been plagued with the problem of developing and carrying out a military strategy that most effectively and efficiently meets national goals. According to a study by the Committee for Economic Development, there has historically been too little attention given to long-range planning; too much stress on details and not enough on the broader picture; too much focus on organizational planning, rather than on broad programs; too little definition of organizational objectives;

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[1] Charles Hitch, Decision Making for Defense (Berkeley and Los Angeles: University of California Press, 1965), p. 27.

and too little use of the budgeting process as a management tool.[1]

A major breakthrough in the budgeting process was made when Secretary of Defense Robert S. McNamara appointed Charles J. Hitch as the Comptroller of the Department of Defense in 1961. Hitch immediately instituted a planning and programming procedure, which is essentially made up of a five-year program subdivided into output-oriented program elements to provide a firm basis for budget formulation and other resource management activities.[2]

The Hitch program was different from the pre-1961 budgeting process in that:

1. It emphasized the product of defense activity, such as an armored division, whereas budgeting was in terms of appropriations, such as procurement, military personnel, and operations and maintenance.

2. The structure in programming permitted analysis of competitive or complementary programs without direct concern with service roles and missions.

3. In programming there was a longer-term view than in budgeting.

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[1]Committee for Economic Development, Budgeting for National Objectives (New York: Committee for Economic Development, 1966), p. 13.

[2]Stephen Enke, ed., Defense Management (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1967), p. 32.

4. Central to the programming approach was the encouragement of thinking on alternative program possibilities with new programs competing with old.

5. In programming, physical and financial data are secured and maintained on a program-by-program basis, thus facilitating application of systems analysis. In budgeting, military requirements were developed by the force as a whole and translated to dollars.

6. Programming emphasizes the rational aspects of decision making; budgeting, the tactical aspects of obtaining funds.

7. Programming decisions are made over a longer period of time than budget decisions.[1]

In September, 1965, Robert N. Anthony became Comptroller of the Department of Defense and immediately started to develop a comprehensive resources management system to serve the needs of all levels of military management. This system had as its objective the improvement and simplification of the programming and budgeting processes.

Anthony's Resource Management Systems (RMS) deals with the management of resources in such a manner as to provide management meaningful information through an integrated programming, budgeting, and management accounting system. Project PRIME has defined the systems as a cycle which the Department of Defense goes through in conducting

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[1]These seven points are essentially as stated by Enke in Defense Management, pp. 32-35.

its business. Figure 3 portrays this cycle. The basic definitions for the phases of this cycle are:

1. Programming--setting goals, objectives, and schedules for achieving them; collecting functions and activities, sharing the same objective into families (programs), and estimating resource requirements for each.

2. Budgeting--formulating detailed one-year projections of resource requirements for the programs, obtaining and allocating associated funds, and balancing priorities in the competition for limited resources.

3. Management of investment--administering the acquisition and use of those goods and services that represent major end items.

4. Management of operations--administering the acquisition of consumable resources and their consumption in the execution of assigned missions.

5. Accounting--measuring results and status, usually in financial terms, for both organizational units and functional areas.

6. Reporting--transmitting financial and non-financial information on the status and results of operations and investments to appropriate levels of management. Auditing/reviewing the accuracy of reported results and judging the adequacy of the compliance with established policies and procedures.[1]

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[1]Department of Defense, A Primer on Project PRIME, p. 7.

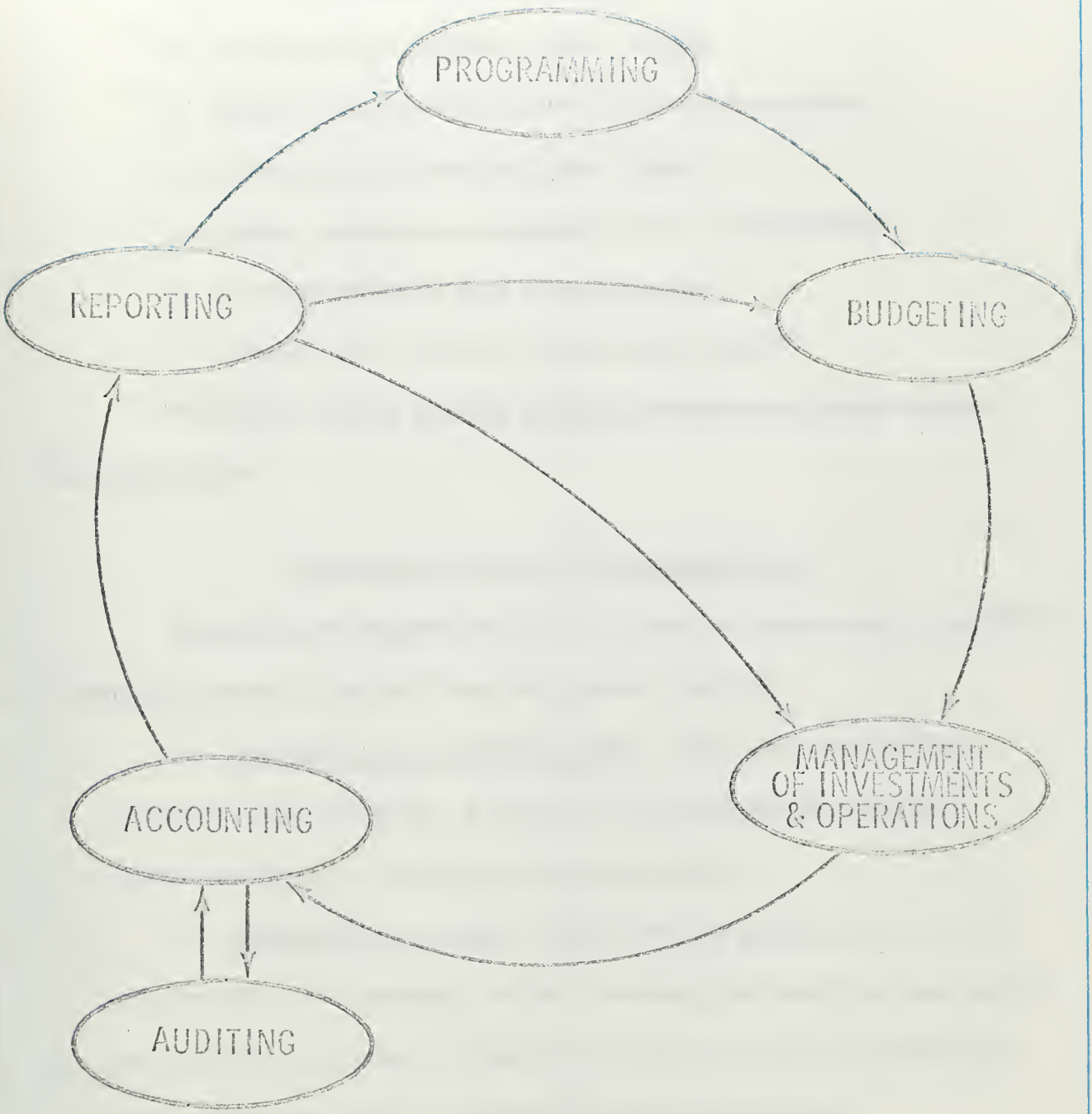

Fig. 3. --Financial Management Cycle in the Department of Defense

Within the management process, the defense manager must:

1. Convert defense plans into programs
2. Translate the programs into a budget
3. Specify responsibility for missions and services
4. Measure performance against plans
5. Relate resources consumed to work accomplished
6. Provide feedback data to management
7. Provide data that are reliable and usable.[1]

The Navy carries out this management process in the manner described below.

Planning and Programming in the Navy

Planning and programming in the Navy are conducted by the CNO. Planning is oriented around three documents, namely:

1. The long-range strategic study, which provides guidance for long-range planning. It appraises the anticipated strategic environment ten to twenty years into the future.

2. The mid-range study, which provides guidance for a five-year period. It develops a military strategy for the five-year period and furnishes guidance on qualitative character and composition of forces to accomplish the missions and tasks developed.

3. Mid-range objectives, which, based on long-range and mid-range strategic environment and threat, national policy and objectives,

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[1] Ibid., p. 10.

and projected responsibilities and tasks, estimate the resource requirements of the Navy. To the extent possible, this document indicates weapons capabilities to be developed and warfare techniques to be introduced. The document also selects alternative force goals in the various functional areas and includes a brief analytical justification and an assessment of risk involved in each case.[1]

The mid-range objectives are translated into program objectives through the Chief of Naval Operations' program objectives document, which provides the annual increments of balanced force levels[2] and programs necessary to the objectives. This document is promulgated by the Secretary of the Navy and sent to the Secretary of Defense for review. In its final form it shows agreed-upon Department of the Navy force levels projected eight years into the future and resource levels for five years. This document is the basis for the Navy's five-year defense program.

The five-year defense program, then, is a listing, by priority, of the defense programs to be carried out by the Navy. The Navy programs become a reality through the budget process by which funds are provided

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[1] U.S., Department of the Navy, Bureau of Naval Personnel, Financial Management in the Navy, NAVPERS 10792-B (int), December, 1966, p. 3-10.

[2] Balanced force level refers to the mix of weapons systems required to execute an assigned task. As an example, the Navy's general purpose force is made up of a mix of ships and aircraft that cost utility analysis has shown to be the optimum under present budget constraints.

on an appropriation basis. Therefore, it is necessary that the individual programs be costed out first by program and then by appropriation.

Budget Formulation in the Navy

The budgetary requirements of the Navy, as is the case of all federal agencies, are built around the Budget and Accounting Act of 1921. This Act provides that:

> 1. The President prepare and submit an annual budget to Congress . . .
> 2. A Bureau of the Budget be created to act as the President's agent in preparing the budget . . .
> 3. The General Accounting Office be created to act on behalf of Congress as an independent watch-dog over expenditures of appropriated funds. [1]

The Budget and Accounting Act also stipulates that:

> . . . The head of each department shall designate an official thereof as budget officer therefor, who in each year under his direction and on or before a date fixed by him shall prepare the departmental estimates. [2]

Within the Department of the Navy, the NAVCOMPT has the responsibility for budget formulation. The annual Navy budget is based on the program objectives set forth in the five-year defense plan. It can best be visualized as a priced-out one-year slice of this plan.

In practice, the budgeting cycle for the Operating Forces begins in November when the CNO calls for the financial requirements of the

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[1] David Ott and Attiat Ott, Federal Budget Policy (Washington: The Brookings Institution, 1965), p. 6.

[2] Department of the Navy, Financial Management in the Navy, p. 4-1.

Atlantic and Pacific Fleets (submitted without justification data) so that program objectives can be prepared by the CNO.[1] These program objectives are the financial objectives that the CNO would like to achieve for the budget under preparation. The replies of the fleet commanders are based upon the request of their type commanders, which requests are made up from past performance data, expected force level increases, expected operational level changes, and cost escalation.

The first step in the budget justification process takes place outside the CNO's office in August when the NAVCOMPT examines the budget. If cuts are made, the reasons for the cuts are presented to the CNO, who may then enter a "reclama" to the SECNAV if he feels strongly that the cuts should be restored. The Secretary has the final responsibility for the Navy's budget, and in any given year his objectives will probably fall somewhere along a broad spectrum of choices. These range from determining the amount of money he deems necessary to fulfill the Navy's program responsibilities to that of getting the best possible naval program within the assigned limitations. After he has made his decisions, the budget must undergo two final steps in the Executive Department's review process. Because of the size and complexity of the defense budget, the reviews of the Secretary of Defense and the Bureau of the Budget are

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[1]The call for financial requirements is issued approximately nineteen months prior to the execution phase of the budget; thus, three budgets are always in process. When the FY 1968 budget is in the execution stage, the FY 1969 budget is in the justification stage, and the FY 1970 budget is in the planning and development stage.

consolidated in early October. The Defense Secretary is concerned with getting the best defense package within his assigned limitations while the Bureau of the Budget aims to get the best budget for the government within the framework of the Administration's fiscal policy.[1]

The final step in the annual budget review process takes place when the President presents the budget to the Congress in January. Thereafter, it is sent to the House of Representatives where the Appropriations Committee delegates the military portion to its Subcommittee on Department of Defense Appropriations, which conducts detailed hearings on the budget. The committee members concentrate their attention on the items that represent the largest increase from the previous budget and usually, though not always, adopt a position of guarding the Treasury. After passing the subcommittee and committee itself, the budget is presented in the form of a bill to the entire House for a vote. Upon passing the House, it is sent to the Senate where it is similarly scrutinized.

The final stage in the budget review and authorization cycle takes place when the President signs the legislative bill written by the Congress.

Budget Execution in the Navy

Budget execution is the accomplishment of a plan. It is a process established to achieve the most effective, efficient, and economical use of

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[1] U.S., Department of the Navy, Office of the Comptroller, The Budget Process in the Navy, 1959, p. 4-3.

appropriated funds in carrying out the program for which funds were appropriated.[1] In short, budget execution specifies responsibility for a mission or a service to be carried out.

Budget execution in the Navy covers a long time span, is initiated by specified procedures, and is implemented by a vast number of people throughout the organization. In point of time, the period covered in executing a particular budget begins on the first day of the budget year, July 1, and ends when record is made of payment of the last dollar properly chargeable to the funds appropriated for the budget in question.

The procedures that initiate the budget execution process are the three steps necessary to make the appropriated funds available for commitment, obligation, and expenditure. These are:

1. Receipt of a copy of an appropriation warrant
2. Approval of the request for apportionment of funds
3. Approval of budget activity allocations.

Actual budget execution begins when the Appropriation Act is implemented through the issuance by the Treasury Department of an appropriation warrant on which is cited the appropriation symbol and the amount stipulated in the Act. The appropriation warrant makes appropriated funds available for apportionment and allocation under which obligations may be incurred and expenditures made.

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[1]Department of the Navy, Financial Management in the Navy, p. 7-1.

Congress has been very careful to safeguard its control over funds appropriated to the Executive Branch of the government. Congress requires by law that all appropriated funds be apportioned before they can be obligated. Specifically, the law states:

> . . . All appropriations of funds available for obligation for a definite period of time shall be so apportioned as to prevent obligation or expenditure thereof in a manner which would indicate a necessity for deficiency or supplemental appropriations for such period; and all appropriations or funds not limited to a definite period of time, and all authorizations to create obligations by contract in advance of appropriations shall be so apportioned as to achieve the most effective and economical use thereof.[1]

The procedure is intended to release only those funds required to meet the latest plans and to prevent obligations and expenditures in excess of the available amounts.

An apportionment is a determination by the director of the Bureau of the Budget as to the amount of obligations that may be incurred during a specified period of time under an appropriation. The Bureau of the Budget has authority to apportion funds for all or any part of a fiscal year and for any program or other subdivision of an appropriation. Navy funds, except for military construction, are usually apportioned at the appropriation level and not at the program level.[2] Annual appropriations are usually apportioned on a quarterly basis. The procedures for apportionment are similar to those of the original justification for funds, with similar backup

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[1] Ibid., p. 7-8.

[2] Appropriation accounting is discussed in Chapter III.

material, hearings, and reclamas.

Receipt of the approved apportionment means that funds in the amounts and under the conditions set forth have been released and are available to the responsible bureau office or command for commitment and obligation for the purpose specified in the appropriation.

After the appropriation has been apportioned, the funds are available for allocation to the major claimants for further allocation to the using activities.

Accounting in the Navy

Tied closely to the budget process and management responsibilities is the accounting and reporting system. The present Navy accounting system places emphasis on the source, application, and status of appropriated funds. This source accounting discloses whether the funds were derived by Congressional enactment, by reimbursement for goods or services furnished others, or by transfer from other appropriations. Accounting for the application of appropriated funds discloses the orders placed for the resources budgeted under each appropriation.

Accounting for the status of appropriated funds is oriented toward assisting officials responsible for the administration of appropriations in avoiding violations of the Anti-Deficiency Act.[1] Accounting procedures revolve around the allotment ledger; that is, they focus on funds allocated,

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[1] See infra, p. 53.

comparing them with funds budgeted. There is no attempt to account for those resources actually used, to determine when they are used, or to relate these costs to work done. Although there are many cost accounting systems in use, they are rarely tied to the basic appropriation accounting system.

The accounting system is a three-level system. These levels are:

1. Appropriation accounting level, which is accomplished by the Comptroller of the Navy. It provides a month-by-month cash position of appropriations, which is reported to the Treasury Department.

2. Allocation and suballocation accounting level, which is accomplished by the bureaus, commands, and offices designated as budget activities. It provides control by budget activity and budget project.

3. Allotment accounting level,[1] which is accomplished by the type commanders of the fleet. It records a status of allotments.[2]

At the type commander level, statistical charges[3] are gathered for free-issue resources through the financial accounting system. These statistics are forwarded to the various offices and bureaus who have provided the resources.

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[1]While still officially called "allotment accounting, fleet commanders now issue Expense Operating Budgets which are similar to allotments from an accounting standpoint but have a different legal background. See infra, p. 29, for a discussion of EOB's.

[2]U.S., Department of the Navy, Office of the Comptroller, Financial Services Division, Department of the Navy Accounting Process, undated, p. 7.

[3]See APA Material in Appendix B for explanation of statistical charges.

The accounting and reporting system used for the control of the Expense Operating Budget[1] is prescribed by the NAVCOMPT. Activities of the Comptroller known as Navy Regional Finance Offices and Fleet Aviation Accounting Offices provide accounting services to the Operating Forces. The Navy Regional Finance Centers, Norfolk, Virginia, and San Diego, California, perform the function for type commanders which control only surface units of the Navy. Type commanders who operate aircraft squadrons receive this service from the Fleet Aviation Accounting Offices, Atlantic and Pacific.

NAVCOMPT has established the following accounting principles for the control and reporting of operating budgets:

1. An order for material or services citing an expense operating budget will be recorded to an unfilled order account.
2. Unfilled orders carried forward from the prior fiscal year's expense operating budget will increase the current fiscal year's expense operating budget.
3. Expense documents that correspond with a related order will be distributed to a current year expense element, regardless of the appropriation fiscal year cited on the order.
4. Adjustments resulting from matching prior year unfilled orders with related expenditures will increase or decrease, as applicable, the current fiscal year's expense operating budget.
5. Unmatched expenditure documents will be recorded in an undistributed expense account without immediate effect on the expense operating budget funds availability, pending validation of the expenditure.
6. Distributions and stores issues will be expended to the appropriation fiscal year cited on the order.
7. Records will be maintained to report both appropriations and expense operating budget transactions on a fiscal year basis.[2]

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[1]Hereafter Expense Operating Budget will be referred to by the acronym EOB.

[2]Department of the Navy, Financial Management in the Navy, p. 4-3.

The accounting system, providing accounts, records, and procedures for the recording transactions, is designed to include accounting and budgeting controls. The accounts and records are designed to provide financial and cost information required by a type commander, fleet commander, or primary support command. The source of data for this system is a cost accounting system by cost center with an expense classification, as appropriate, for financial planning. The system has the following features:

1. Double-entry method of accounting
2. Internal control over all transactions
3. Integration of cost accounting records with the general books of account.[1]

The nucleus of this accounting system is a general ledger which ultimately summarizes all accounting entries of an EOB. The general ledger account structure is specifically designed to accumulate financial data necessary to accomplish the objectives of the system and to provide data for the conversion of operating results to the requirements of appropriations accounting. It contains seventeen accounts. Standard accounting procedures are used to maintain this ledger.

The outputs of this accounting system provide the type commander with a comprehensive statistical report on the application of funds by the units of the type command.

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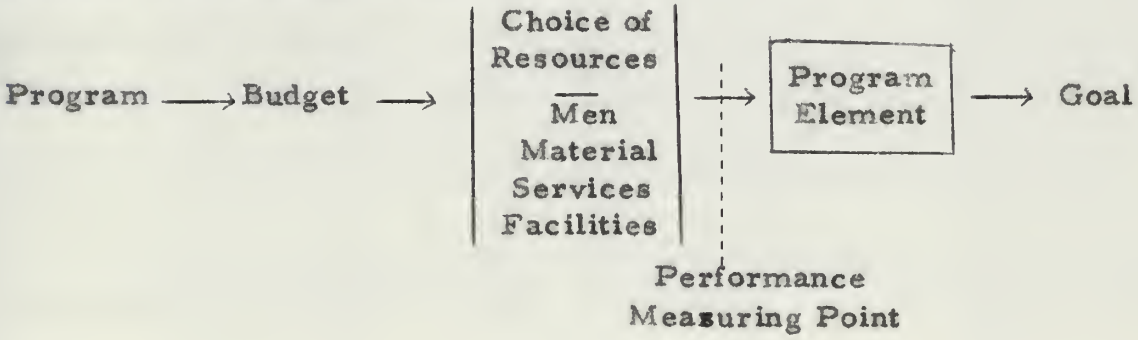
[1] Ibid., p. 4-4.

Resource Management Systems (RMS)

Earlier in this chapter mention was made of the RMS concept. As noted at that time, RMS has the objective of tying all phases of management into an integrated structure. Within the context of the data presented to this point, the RMS concept can be viewed in its entirety.

The programming phase of management is the key to this plan. The program sets a goal and estimates the resources required to meet this goal. Alternative choices of weapons systems compete for acceptance as the means for reaching the goal. Called program elements, these systems should be thought of as organizations or a grouping of organizations such as type commands as opposed to a collection or display of items (such as a destroyer). Units of the element are considered as cost centers and the element is a responsibility center. Element effectiveness is measured by the amount of resources required to produce a stated output. Funds are budgeted to the element commander in order that the plan can be carried out. The accounting system records the results of management's efforts and provides management data. The reporting system provides the communication levels in the system. This process can be diagramed in the following manner:



To make this system effective, the element commander must have:

1. Control over the type and mix of resources required
2. Control of budget formulation
3. Control of production methods.

Integration of the total management process is accomplished by standardizing data formats and communications systems so that there can be an effective interface between the management systems.

Management effectiveness must be measured at the resource input point and be based on resources consumed. To compare the results of management with the plan, the plan must be in a form that includes all the projected cost elements necessary to carry it out. The plan, under RMS procedures, is an operating budget called and EOB. The EOB is merely a block of the total programming matrix which contains authority for all operating resources needed by the responsible commander. The EOB, then, is a portion of a budget that has been prepared by program.

CHAPTER III

APPROPRIATION STRUCTURE

As officially defined, an appropriation is "a statutory authorization to make payments out of the Treasury for a specific purpose."[1] The Navy appropriation structure is now based on major programs--that is, broad areas of effort.[2] This has not always been the case. Before 1951, appropriations were based on things to be acquired, such as supplies, printing, equipment, or organizational units. This variety in appropriation bases made it difficult to determine the total estimated cost of overall programs, a matter of primary interest to higher review authorities, including the Congress.

The primary aim of the present structure is to provide top management, including such higher review levels as the Secretary of Defense, the Bureau of the Budget, and the Congress, with information that will permit consideration and control on the basis of broad programs representing either plans of action to accomplish a given objective or areas of primary interest or significance. From the standpoint of internal management, the present budget is designed to eliminate, in so far as possible, the diffusion

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[1]Department of the Navy, Financial Management in the Navy, p. 4-8.

[2]Function programs of the appropriation structure are not related to the defense programs of the five-year defense plan. See supra, p. 18.

of funding responsibility. In other words, funding responsibility should parallel administration.

The major programs currently in use in the Navy are:

1. Military personnel
2. Operation and maintenance
3. Procurement
4. Research,development, test, and evaluation
5. Military construction.[1]

Within these major headings there are thirteen appropriation titles.

Congress approves funds by purpose to one level below the appropriation. In budgeting terms, this level is called the activity level. Below this level, the allocation of funds is a completely internal matter. The following discussion explains the appropriation Operation and Maintenance, Navy.[2]

The purpose of the O&MN appropriation is to operate and maintain the naval forces and their supporting shore establishment. Its overriding consideration is to maintain these forces in a high state of combat readiness. Included in the force structure maintained are 949 active fleet ships and 6,789 land- and carrier-based aircraft. Their primary mission is to protect the sea lanes vital to the free world's interests and to extend

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[1]Department of the Navy, Department of the Navy Budget Digest, p. 44.

[2]Hereafter "Operations and Maintenance, Navy" will be referred to by the acronym O&MN.

American power to trouble spots around the world. The inherent versatility and mobility of naval forces ensures a speed and measured response to aggression or threat of aggression with combat strength equal to the crisis, ranging from brush-fire to nuclear war.

Preparedness for combat through the continuation of necessary training operations and fleet exercises is reflected in the 2.7 million steaming hours budget for surface ships and the 3.9 million flying hours budget for naval aircraft.

Provision is made for 274 regular ship overhauls. At the time of overhaul, numerous ship alterations to enhance the combat effectiveness of the unit are made.

Funds are provided to operate and maintain naval shore establishments for the purpose of providing supply, overhaul, modernization, repair, training, and other support services for naval forces personnel.[1]

Structurally, the O&MN appropriation is broken down into functional areas of funds application called budget activities. The budget activities used in the budgets for Fiscal Years 1968 and 1969 are as follows:

1. Operating Forces
2. Logistic Support
3. Medical Support
4. Training and Military Personnel Support
5. Naval Reserve

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[1] Ibid., p. 55.

6. Service-wide Operations

7. Petroleum Reserve.[1]

These budget activity titles differ from those of prior budgets as a result of the shift to RMS, which requires that commanders allocate funds by major defense programs. The previous budget activity titles were not compatible with these programs.

The major problem of allocating by defense program is the need to convert from the functional appropriation structure to the program base. Figure 4 illustrates how this conversion is accomplished. Funds are appropriated by budget activity (budget classification). At the CNO level they are allocated to the major program that they will fund and given to the major claimant. Figure 5 shows an example of a breakdown by major element for Major Program II, General Purpose Forces.

At the major claimant level the funds are again divided and sub-allocated to the next echelon of command, the type commander. The type commanders divide these expense limitations into EOB's, which are, in turn, divided into the operating targets that are given to the individual ship.

In order for accounting and reporting to be accomplished, the allocated funds are assigned an accounting code. (When written out in its entirety, it is usually called an accounting spread. Figure 6 is an example

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[1]U.S., Department of the Navy, Office of the Comptroller, Fiscal Year 1968, Budgeting and Funding Procedures (NAVCOMPT Inst. 7000.79), June 22, 1967, par. 3.

Fig. 4. --

EXAMPLE OF USE OF NAVY APPROPRIATION SUBHEADS FOR CROSSOVER FROM PRESIDENT'S BUDGET CLASSIFICATIONS TO THE FYDP

(Dollars in Thousands)

FYDP:
Program II -- General Purpose Forces

CLAIMANT	SUBHEAD	OPERATING FORCES	LOGISTIC SUPPORT	TRN'G & MIL PERS SUP'T	SERV-WIDE OPERAT'NS	TOTAL
CINCLANTFLT	.6020	$ 837,420	$	$	$	$ 837,420
CINCPACFLT	.7020	1,119,669				1,119,669
CINCUSNAVEUR	.6120	18,740				18,740
MARCORPS	.2720	58,971				58,971
ADMIN'G (ONR)	.1420			10,200		10,200
NAVCOMMCOM	.6320				2,500	2,500
CHO	.1120				21,563	21,563
CNM-- NAVORD	.1720		3,444			3,444
NAVAIR	.1920		695,826			695,826
NAVFAC	.2520		24,846			24,846
TOTALS		$ 2,034,800	$ 724,116	$ 10,200	$ 24,063	$ 2,793,179

Source: U.S., Department of the Navy, Office of the Comptroller (NCFS), Implementation of Resource Management Systems (RMS), Information Concerning (unnumbered), February 9, 1968.
See Appendix A for a translation of acronyms.

Fig. 5.--

DISTRIBUTION OF PRESIDENT'S BUDGET TO OSD FYDP

(Dollars in Thousands)

PROGRAMS ↓	BUDGET CLASSIFICATION → 1 OPERATING FORCES	2 LOGISTIC SUPPORT	3 MEDICAL SUPPORT	4 TRAINING & MIL PERS SUPT	5 NAVAL RESERVE	6 SERV-WIDE OPERATIONS	7 PETROLEUM RESERVE	TOTAL
I Strategic Forces	$ 120,000	207,650				2,717		$ 330,367
II GENERAL PURPOSE FORCES	2,059,000	724,116		18,000		28,960		2,730,176
III Intelligence & Communications	28,500	28,510		1,618		252,570		310,198
V Guard & Reserve Forces		70,918			98,586			169,504
VII Central Supply & Maint		1,618,387				18,357		1,636,744
VIII Training, Medical & Other General Personnel Activities		87,170	200,526	255,600				551,296
IX Administration & Assoc. Activities	5,370	33,200	9,370	18,616		148,332	9,300	223,188
X Military Assistance Activities	58	254				16,181		16,493
TOTALS	$ 2,121,058	2,760,210	212,896	293,834	98,586	467,097	9,300	$ 6,003,681

Source: U.S., Department of the Navy, Office of the Comptroller (NCFS), Implementation of Resource Management Systems (RMS), Information Concerning (unnumbered), February 9, 1968.

of the accounting spread for repair parts used by CRUDESLANT ships, which are assigned to Major Program II of the defense structure. At the operating level the fund code becomes the code used to identify the complete spread.

Accounting Code Spread	Explanation
17 - 1804. 602C 57018 60851. - V04901 - AR	
17 - 1804.	Appropriation O&MN
.602C	Appropriation subhead
.60	Major claimant. CINCLANTFLT
2	Major Program II, General Purpose Forces
C	Expense limitation assigned by CINCLANTFLT - meaning CRUDESLANT holds funds
57018	UIC of EOB holder - CRUDESLANT
60851.	Authorization accounting activity
V04901	UIC of ship holding OPTAR
AR	Fund code for function for which funds were expended - repair parts.

Fig. 6. --Accounting spread for repair parts on ships

CHAPTER IV

AFLOAT INVENTORY MANAGEMENT

Shipboard inventories provide the ship with a maximum of built-in endurance to enable them to perform their mission independent of outside logistic support.

Inventories are initially placed aboard a ship when the ship is commissioned or recommissioned, or when it goes through alteration. These inventories are funded by special outfitting funds provided for this purpose.

In range, inventories vary from approximately 17,000 items at a value of $300,000 on destroyer class ships to 40,000 items at a value of $1.5 million aboard an aircraft carrier. Monthly consumption of these items varies from $5,000 to $50,000.

Inventories are composed of two types of material: consumables and repair parts. Consumables consist of housekeeping and administrative-type items. Repair parts can be divided into those required on a repetitive basis and those held as insurance items.

A good approximation of an inventory breakdown is shown in Figure 7.

Type	Approximate Percentage of Items Carried	Approximate Percentage of Inventory Value	Approximate Percentage of Money Value Issue
Consumables	10%	20%	40 - 50%
Repetitive Use Repair Parts	1 - 2	10	10 - 15
Non-repetitive Repair Parts	88 - 89	70	30 - 35

Source: J. W. Cartee, Professional Paper on Supply Management, Navy Department, Bureau of Supplies and Accounts, 1960, pp. 17-21.

Fig. 7.--Breakdown of inventory

Inventory levels are determined by allowance lists that are tailored to the individual ship. These lists are made up of allowance parts lists for each equipment installed on-board the ship.

The allowance list system that has been in the fleet since 1956 is called the Coordinated Shipboard Allowance List.[1] In make-up, the COSAL consists of four parts: (1) introduction; (2) index of installed equipment; (3) allowance parts list; and (4) a stock number sequence listing of all items of repair parts recommended for stocking.[2] The general guidance for the preparation of the COSAL includes the following requirements:

[1]Hereafter the Coordinated Shipboard Allowance List will be referred to by the acronym COSAL.

[2]U.S., Department of the Navy, U.S. Navy Supply Corps School, Supply Management Problems, Part I, Ch. 2.

1. Allowance lists will be based on wartime needs (90 per cent support for ninety days).
2. The range of items will take precedence over the depth of items.
3. The items included will, except in cases authorized, be within the capability of the ship's force to install. [1]

The stock number sequence listing is a machine calculation by federal stock number of the items listed in the allowance parts list section. Where an item appears in more than one section, the stock number sequence listing factors the quantity to take into account the duplication of the installation.

Supply Operations Assistance Program

Allowance lists are constantly being updated or purified. The most intensive method used to accomplish this purpose is the Supply Operations Assistance Program. [2] The primary objective of SOAP is to improve material readiness by raising the repair parts inventories to the level prescribed by appropriate authority and to verify the validity of the allowance lists. [3]

In general terms, SOAP is the implementation of a new COSAL and is accomplished at the time of a regular ship overhaul, which is every two years. The SOAP procedure begins by an inventory of equipment

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[1] Ibid., Ch. 4.

[2] Hereafter Supply Operations Assistance Program will be referred to by the acronym SOAP.

[3] Department of the Navy, Supply Management Problems, Part III, p. 13-13.

installed on board the ship. This inventory is forwarded to the shipyard that will accomplish the regular overhaul, where it is brought up to date by adding equipment to be installed and deleting equipment to be removed. The inventory is then forwarded to the COSAL maintenance activity, an activity of the material command responsible for material and allowance list management. This activity prepares and forwards to the ship a new allowance list complete with a new set of stock record cards for the items listed on the stock number sequence listing. The supply overhaul is accomplished by off-loading all the repair parts into a warehouse where they are inventoried and matched against the new allowance lists. Parts no longer required are returned to the supply system. (The rules for credit for repair parts turned in are extremely complicated. For the purpose of this paper it can be stated that the percentage return is slight. All credits for returns are entered on the type commander's EOB.) Repair parts deficiencies caused by additions of new equipment are funded by special allotments. Deficiencies caused by a failure to replace parts issued must be funded by the type commander out of operating funds. Through the SOAP procedure, allowance lists are kept in an up-to-date condition and the ship is provided with the maximum repair parts load.

Procedure for Inventory Control Afloat[1]

Day-to-day inventory management is the responsibility of the ship's supply officer. The procedures used to perform this function are

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[1]Hereafter Procedures for Inventory Control Afloat will be referred to by the acronym PICA.

prescribed by the Commander, Naval Supply Systems Command. As in the case of financial management, the type commander has been given an amount of latitude on the exact procedures to be followed. The present system of inventory management is called "Procedures for Inventory Control Afloat." This system was implemented in 1965 and replaced systems that were designed by the individual type commander. The PICA system is built around a number of decision rules for the procurement, stocking, and issue of repair parts and consumables. All documentation used in the system is standard to the Navy in order that there be complete interface throughout the Navy supply system.

The PICA procedure calls for central inventory management with items of supply maintained in storerooms under the control of the supply officer. Records of the balance carried are maintained on centralized stock record cards. The basic data kept on the stock record card include:

1. Federal stock number
2. Nomenclature
3. Unit of issue
4. Unit price
5. Location
6. APL number
7. High and low limit or allowance quantity
8. On-hand/on-order balances
9. Historical data of issue and receipts.[1]

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[1]Department of the Navy, Supply Management Problems, Part III, p. 12-47.

All material transactions made are based on the data of this card and the decision rules for stock management. The basic decision system used for stock management is the Selected Item Management system.[1] SIM was developed by the Commander, Cruiser-Destroyer Force, U.S. Atlantic Fleet, as a method of focusing management attention on the repetitive use of repair parts and consumables. The procedure was adopted Navy-wide when it was made a part of the PICA procedure in 1965. SIM deals with items that have such a repetitive demand that the fixed allowance level prescribed by the COSAL is insufficient for adequate support. Under SIM an item is stocked on the basis of usage and not of the allowance quantity. The stockage objective of SIM is based on demand, lead time, and safety level requirements. Items that do not qualify under the SIM rules are replaced in stock on a one-for-one rule. The items listed in the consumable and repetitive repair parts category in Figure 7[2] receive SIM management under the PICA procedure.

The operating departments of the ship receive their main material support through the stocks of consumables and repair parts carried on board. However, approximately 16 per cent of their needs (36 per cent in money value) are for items not listed on the allowance list. These items are requisitioned by the supply officer from the Navy supply system. This type of transaction is referred to as a direct turnover transaction

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[1] Hereafter Selected Item Management will be referred to by the acronym SIM.

[2] See supra, p. 38.

(DTO). When the DTO volume for any single item meets the SIM management level, the item is placed in stock and managed as a SIM item.

Information Gathering Program

One of the most important phases of inventory management is the collection of consumption data. These data provide intelligence to the maintenance echelon of the Navy, budget justifications for the O&MN appropriation, and financial/material management data to the type commander. These programs cannot be sliced by purely financial or material implication. The following presentation will, therefore, cover them in their entirety.

Maintenance Data Collection System[1]

One of the primary programs involving information gathering in which all afloat units participate is the Maintenance Data Collection system. This system is a phase of a program, Standard Navy Maintenance and Material Management, which is designed to improve equipment performance and design through a system of programmed maintenance and centralized data collection. While MDC has the basic purpose of collecting data for maintenance management, it has a spill-over effect of providing exact cost data on the consumption of repair parts and consumables by afloat unit.[2]

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[1]Hereafter the Maintenance Data Collection system will be referred to by the acronym MDC.

[2]Department of the Navy, Supply Management Problems, Part III, p. 12-15.

The primary document of this system is the "Single Line Item Consumption/Management" document.[1] It is used as an internal request document aboard all afloat units and is thus an integral part of the PICA system.

MDC makes available to the financial manager the full cost of the maintenance operation in terms of repair parts consumed.

Afloat Consumption, Cost and Effectiveness Surveillance System[2]

Implemented in the fleet in July, 1966, ACCESS is the most aggressive program for the gathering of financial and material management data in the Operating Forces. It utilizes Automatic Data Processing equipment to collect and summarize basic consumption data generated in the normal course of afloat supply operations. These data are collected from copies of the Single Line Item Consumption/Management document discussed above and from obligation and deficiency data from fiscal operations.

ACCESS provides information to fleet commanders, type commanders, and ships on supply readiness, shipboard material inventories, material consumption, material deficiencies, comparative supply performance, and the obligation and utilization of funds. Reports of the ACCESS program provide managers at the various levels in the fleet with

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[1] Ibid., p. 12-38.

[2] Hereafter the Afloat Consumption Cost and Effectiveness Surveillance System will be referred to by the acronym ACCESS.

management data that not only highlight the elements of greatest importance, but also identify problem areas. Additionally, the wide data base provided by ACCESS allows the type commander to complete special reporting requirements without going to the units involved with a one-time request for special data.

One of the essential requirements of the program is that the consumption documents be accurately reported during the period in which the material was issued to the maintenance activity involved. This requirement necessitates that a detailed submission routine be carried out by the supply officer. Documents are broken down by the fund code that will be assigned if the material is to be replaced in the internal system and, because the system is designed to measure the full cost of operations, all items, regardless of whether they are chargeable to the operating target, are reported.

Summary

Material management at the shipboard level provides the ship with a maximum material endurance capacity. The system currently being used is a standardized procedure that attempts to capitalize on the benefits of an allowance list system and management by exception for the items that have a high turnover rate. The responsible person in this system is the ship's supply officer who maintains the inventory through the use of a centralized stock records and storage system.

The supply officer receives maximum supervision over his operation through a tight procedures system and a requirement to report in detail all business conducted. In this environment one of the most important constraints placed on the operation is the availability of funds required to carry out the procedures of inventory management.

Through ACCESS, the type commander can compare all elements of financial and material management of his ships. As an example, the ACCESS OPTAR (operating target) analysis report shows, by individual ship, the OPTAR status, value of obligations to date, consumption and inventory eat-down/build-up. These figures are compared by ship and to an average of all ships of a class. This report permits ships to compare their performance with ships of the same class and gives the type commander budget formulation and execution data.

The major weakness of ACCESS has been the inability to collect clean data and complete data. This fact is stressed by CRUDESLANT in their message to all units dated October 17, 1967,[1] which stressed the need for accurate consumption documents for all items consumed.

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[1]Please refer to infra, p. 61.

CHAPTER V

FINANCIAL MANAGEMENT IN THE OPERATING FORCES

Earlier chapters have shown that at the operating level financial management involves the management of material resources used in day-to-day operations. Because of increased pressure on material management effectiveness and increased material readiness afloat, these requirements have become increasingly stringent.

It is the intent of this chapter to compare the financial management practices and procedures currently being used in the fleet by two type commanders with the basic guide lines prescribed by the NAVCOMPT. The two type commanders, COMCRUDESLANT and COMPHIBLANT, have both historically carried on aggressive programs to attain maximum material readiness but have taken significantly different routes toward their common goal.

The chapter will also review a study directed by the SECNAV in 1965 of the financial management problems of the fleet.

History of Accounting in the Fleet

Prior to 1949, all material issues to the Operating Forces were "free." Accounting for material was done ashore and material was

expended to "end use" when issued afloat. After issue was made, there was no attempt to keep an account of the dollar value of inventories or to trace the final use of materials. Commencing in 1949, commanding officers were allotted funds for equipage[1] items and consumables. These areas were brought under a system of financial management because they were controllable by the using activities and were for immediate consumption. Records used at this time consisted of hand-ruled hardback log books that listed, by requisition or purchase order number, the amount of funds obligated. Type commanders controlled these procedures independent of any requirements from higher authority.

During the 1950's, as ships became more technically sophisticated, it became apparent that a decentralized material management procedure was not adequate and that repair parts could no longer be considered a free resource. As material management became centralized, repair parts began to move from the APA to the NSA concept.[2] The type commanders met this change by increasing the allocations, called operating targets,[3] to ships and placing more and more financial controls on the afloat manager. At the same time, the NAVCOMPT expanded his control over afloat financial management by placing more management controls upon the ships and the type commanders.

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[1]See Appendix B for definition. [2]See Appendix B for definition.

[3]Hereafter operating target will be referred to by the acronym OPTAR.

Supply and Equipage OPTAR Accounting[1]

In 1965 standardized financial management procedures were promulgated by the NAVCOMPT. These procedures moved the responsibility for allotment accounting from the ships to centralized ashore accounting facilities--the Navy Regional Finance Centers.[2] This placed the ships in the position of maintaining memorandum records of their OPTAR. The system installed in 1965 and used today is called Supply and Equipage OPTAR Accounting. It has the following objectives:

1. To determine the cost of operations of an operating unit in terms of total resources to be applied.

2. To establish a system of monetary controls that will be of maximum value to management in assuring that resources are used effectively and efficiently in the accomplishment of the mission of the operating unit.[3]

The accounting system used to carry out these objectives provides for:

1. Line item analysis of obligations and expenditures.

2. A capability for on-board challenging and reconciliation of expenditures.

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[1]U.S. Department of the Navy, Office of the Comptroller, Financial Management of Resources, NAVSO P-3013, May, 1967.

[2]Hereafter Navy Regional Finance Center will be referred to by the acronym NRFC.

[3]Department of the Navy, Financial Management in the Navy, p. 1-3.

3. The keeping of logical records and files that are adaptable to rapid internal audit and that also provide a complete financial history.[1]

While the type commanders are allowed latitude in the implementation of this system, their system outputs to the NRFC must be in the standard format required by the Comptroller.

The focal point of the afloat accounting system is the Requisition/OPTAR Log,[2] illustrated in Figure 8. This log records the value of all request documents written for materials or services that require the obligation of O&MN funds or require that a statistical charge be shown for the transaction. Transactions are recorded by federal stock number, nomenclature, or nature of the service.

The column marked "FC" (fund code) identifies the appropriation data of the transaction. Fund codes have been assigned to cover all possible transactions.[3] The "E" and "R" entries in the Estimated Cost Chargeable columns stand for equipage and repair parts. Equipage items are items of capital investment and may or may not be charged to the ship's OPTAR. Repair parts are operating items and chargeable to the OPTAR. Each type commander has a fund code assigned for these items. It should be noted that there are occasions when a repair part is not chargeable to the OPTAR. At this time the request will carry the repair

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[1]Department of the Navy, Financial Management of Resources.

[2]Ibid., p. 5-81.

[3]Ibid., p. 5-4.

NAVCOMPT FORM 2155 (3-65)
0104-702-8000

REQUISITION/OPTAR LOG

USS GRASSHOUND (DD 999)
FY 1966
UIC: 466666

DATE	DOCUMENT NUMBER	STOCK NUMBER	DESCRIPTION	PRI	SUPPLEMENTARY ADDRESS OR DEPARTMENT	DATE MATERIAL RECEIVED	INCREASE OR DECREASE	ESTIMATED COST CHARGEABLE E	ESTIMATED COST CHARGEABLE P	ESTIMATED COST CHARGEABLE C	ESTIMATED COST CHARGEABLE OTHER	DIFFERENCE E	DIFFERENCE P	DIFFERENCE C	DIFFERENCE OTHER	OPTAR DATE $5,000.00	TO DATE $5,000.00
7191	0001	9N-5905-105-2414	RESISTOR	17	10050	7216	EE5		2 70								
7191	0002	1N-6105-020-2547	MOTOR	17	07014	7219	EE5		191 00								ADV ALLT 7219
7190	0003	9N-7530-261-6358	FOLDER	17	05169	7226	EE5			C	4 24					4995 76	
7205	0004	9D-0345-233-5540	PENNANT	12	DTOSM	7217	EPC			C	5 40					4997 76	
7209	0005	2F-5905-719-1567	COUPLER	02	NCOCT	7210	EKO		NONE								USE 15PC -
7209	0006	9N-5761-904-7760	RESISTOR	17	10000		EN3		NONE								CCSAL 4.06 USE 1N5761-904 US 1 EA ONLY
7208	0007	2N-5220-152-0501	LIFE PRES.	12	ENW73	7234	EE6	NONE									
7210	0008	SERVMART	VARIOUS	17	DTSEM	7210	EP5			C	111 01					4971 55	
7212		CUMULATIVE TOTALS				—		NONE	198 20		67 45	NONE	NONE		NONE		4,997.76 $1,175.00
7213	0009	9Z-5330-041-5917	PACKING	05	NCEMM	7215	EK5		560 00								
7214	0010	7N-6220-703-4515	CTL. LTR.	12	NCEEE	7242	EE5	74 00								4999 76	
7215	0011	1N-4820-035-9433	DIAPHRAGM	12	NCEMM	C	EK5		15 50								CANCEL 7215
7216	0012	9G-9150-235-9063	BULK WIRE	17	DTEOT	7216	EP5			D	320 00					4572 55	
7219	7721	RUBBER STAMPS		12	DTXYN	7233	EP5			C	12 50					4584 05	
7219		ADV. ADJ. RECN. 0002				—							-104 00				
7233	0013	9N-5910-022-1175	CAPACITOR	05	NCWFT	7235	KK7		4 40								
7234		OBLIGATE RECN 0007				—		250 00								4834 05	-250.00
7235	0014	2N-5960-593-4524	INDS	06	06NSA		EE6		NONE								DN: 300 -
7243	0015	POP CIV. 20	VARIOUS	17						C	710 33					5608 72	
7243		CUMULATIVE TOTALS						324 00	778 10		1078 00	NONE	-104 00		NONE		5,150.00
7244		COUNCIL RECN 0011							-15 50								
7244		OPTAR INCREASE REF COMNAVSURFLANT MSG 302145Z AUG 1965 IN AMOUNT OF $1,000.00														4603 72	OPTAR TO DATE $6,000
7244		NCEC DETAIL LISTING - 7244											40 00		-10 27	4613 97	
7244		S/A TRANSFER NOT PREVIOUSLY RECORDED								C	4 50					4618 47	U/M 1-1ST
7244		CUMULATIVE TOTALS						324 00	762 60		1076 50	NONE	-64 00		-10 27	4618 47	$1000.00

Source: U.S., Department of the Navy, COMCRUDESLANT Inst. 7303.15, Readiness and Money (RAM-II), June, 1965.

Fig. 8. --The Requisition/OPTAR Log

parts fund code but at the accounting level the federal stock number coding will shunt the item into the APA accounting cycle and show the transaction as a non-charge to the OPTAR. Prices used on the log are taken from a standard price catalog.

The major file associated with the Requisition/OPTAR Log is the holding file.[1] This file contains a copy of all documents posted to the log. On a weekly basis this file is mailed to the NRFC via a standard report called a Weekly Document Transmittal Report. The documents transmitted become the basis for posting to the accounting records being maintained by the type commander.

After a requisition has been posted to the Requisition/OPTAR Log and a copy filed in the holding file, it is delivered to a supply activity for processing. Upon issue of the requested material, the issuing activity charges the O&MN funds cited on the requisition by the fund code and forwards a record of the transaction to the NRFC designated by the fund code at the actual price charged. At the NRFC this expenditure document is matched with the obligation document received from the ship. If the documents match in dollar amount, the transaction is posted to the type commander's accounting records.[2] In numerous cases a match cannot be made because of price difference, fund code difference, or a number of other reasons. In this case, the NRFC notifies the ship of the differences

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[1] Ibid., p. 5-83.

[2] See supra, p. 24, for accounting procedure.

on a monthly basis. If the ship accepts the expenditure price, the Requisition/OPTAR Log is adjusted and the adjustment document is reported in the next weekly transmittal report. If the difference is not accepted, no adjustment is made and justification for the position is returned to the NRFC via the weekly report. The NRFC then arbitrates the final solution between the issuing activity and ship.

There are many occasions where obligations documents and expenditure documents are held by the NRFC for ninety days without matching. As in the case of the differences, a report of these documents is sent to the ship for investigation. The results of the investigation are posted as adjustments to the Requisition/OPTAR Log and forwarded to the NRFC via the holding file.

The Requisition/OPTAR Log is balanced monthly and a report of its status (cumulative year-to-date) is sent to the NRFC and type commander. This report, entitled Budget OPTAR Report, is by estimated cost chargeable and difference column. The type commander uses it to keep a monthly check of funds flow by the individual unit. It also provides the basis for certification that documentary evidence is available to cover obligations legally incurred to date for the fiscal year. This is necessary to meet the requirements of Section 3679 of the Revised Statutes (31 U.S.C. 669), Administrative Control of Appropriations within the Department of Defense. A summary of the purpose of this statute is as follows:

1. To prescribe Department of Defense regulations designed to restrict obligations and/or expenditures against each appropriation or fund to the amount available therein and, where apportionments or reapportionments of appropriations are required to be made, to the amounts of such apportionment or reapportionments.

2. To enable the Assistant Secretary of Defense (Comptroller) to fix responsibility for the creation of any obligation or the making of any expenditure in excess of an appropriation, apportionment, reapportionment, or subdivision thereof. [1]

The responsibility for meeting the requirement of this statute is delegated down the appropriation chain to the allotment and suballotment level. An OPTAR is an unofficial allocation of funds in the eyes of the statute; therefore, the responsibility of Section 3679 rests with the type commander as an allotment holder. [2]

Because the type commander has decentralized his accounting operation, the OPTAR record becomes the only point where a certification can be made. Thus, ship commanding officers certify to the type

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[1] 31 U.S. Code 669, Section 3679, of Revised Statutes, Administrative Control of Appropriations within the Department of Defense, August, 1958.

[2] Under the provision of the RMS system currently being implemented, the type commander receives an Expense Operating Budget vice an allotment. This EOB is made up of funds from several budget activities. In this situation the position of the 3679 statute has not been legally made clear at this time but it has been generally agreed that the type commander is the responsible party under the law as he was when he received an allotment.

commander on the basis of the Requisition/OPTAR records and the type commander aggregates these certifications to arrive at the total of obligations lodged against his EOB. The NRFC figure is not used for this purpose because of the fact that ship commanding officers are accounting agents only and have no authority to obligate funds.

Financial Management Procedures in CRUDESLANT

For several years the commander, Cruiser-Destroyer Force, Atlantic Fleet, has been operating under a policy that allocates funds to commanding officers for consumables and equipage items only. Repair parts are requisitioned by ships under a no-OPTAR concept.[1] Under this concept, commanding officers have been able to budget their OPTAR funds for consumables or equipage with assurance that unexpected material casualties will not interfere with planned procurements by diverting earmarked money for repair parts.[2] This policy is now in effect for ships that are operating under Major Defense Program II. (Ships funded under Programs III and V receive quarterly OPTARS.)

Under the CRUDESLANT procedure, repair parts are funded directly by the type commander and the ship is guided in its procurement policy by the requirements of the material management system. At the end of the fiscal year it is necessary that controls be placed on the flow of funds to ensure that the type commander's EOB is not over-obligated. To

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[1] Department of the Navy, Readiness and Money, p. II-3.

[2] Ibid.

control funds at this time, a Maximum Authorization for Repair Parts (MARP) is assigned to each unit. This authorization serves as a target figure for the purpose of controlling obligations and ensuring full use of available funds while preventing an overobligation.[1]

In his instructions to his units the type commander carefully outlines the management responsibilities of the unit commanding officers and gives strict guide lines for the procurement of repair parts. The basis for these guide lines is the PICA material management system. Further restrictions have been placed on the repair parts replacement formula promulgated by PICA in order that the funding criteria of the type commander can be met. Specifically, high and low limits on SIM items are to be carefully established. Once established, the ship is authorized to procure up to the high limit. Items that are not controlled by SIM procedures are also automatically replaced if they have an allowance quantity of one. Those items that have an allowance quantity of more than one will be reordered when their balance reaches one, and at that time only the lowest unit normally issued will be reordered. Repair parts that have an allowance but are not on board or on order may be ordered only in response to a specific request for immediate use. At that time, a second unit may be ordered for stock to establish a future balance of one. Items that are not listed on the allowance list (known as NC items) may be ordered for stock when two or more demands have been experienced. Otherwise they

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[1] Ibid.

can be stocked only with the specific approval of the type commander for an allowance change.

Within this system there are many circumstances that will result in the change of an allowance quantity. The general rule for the addition of stock to meet these changes is that approval must first be gained from the type commander. All other items purchased by the unit, mainly consumables, equipage items, and bulk lubricating oil, are funded through a quarterly OPTAR. COMCRUDESLANT has delegated the authority for issuing this OPTAR to squadron commanders who may allocate the funds on the basis of estimates of the respective ship's needs. Along with this funding authority, squadron commanders have been made responsible for:

1. Keeping the type commander fully informed of the squadron's funding needs.

2. Insuring that the funds granted obtain maximum maintenance and readiness.

3. Insuring that his ships do not over-obligate assigned OPTAR's.

4. Insuring that his ships submit required reports in a correct and timely manner.[1]

COMCRUDESLANT has recognized an area that is normally not controlled and consequently a financial manager's headache. This is the problem of financing habitability items. Although OPTAR's are specifically issued for the procurement of operating supplies and services, they may

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[1] Ibid., p. II-7.

also be used for the maintenance and improvement of habitability of the ship. Habitability items are generally considered to be those materials of a decorative and incidental nature, including rugs, false overheads, false bulkheads, pictures, picture frames, commercially produced furniture, draperies, lamps, and like items, but they do not include such things as mattresses, bedding, standard issue furniture, and mess gear (galley and eating equipment and utensils). The type commander has directed that these items be approved for procurement by the squadron commander and that major habitability be submitted to the type commander in accordance with his instructions on Habitability Improvement Plans.

COMCRUDESLANT has also set up a contingency fund to cover unexpected major demands. Called the Fleet Support Fund, it provides a source of funds when unpredicted demands have been placed on a ship's OPTAR or when no estimates can be made of a future requirement. Example situations that would require the use of this fund are the rebricking of boilers, storm damage, an unusual deployment, or a requirement to replace a high-cost equipage item. The type commander feels that increased effectiveness can be gained in the use of OPTAR funds by making this fund available through the precluding of the loss of valuable maintenance opportunities because of the lack of in-hand funds. All requests for grants from the Fleet Support Fund must be approved by the squadron commander and the type commander.[1]

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[1] Ibid., p. II-12.

COMCRUDESLANT carries out the afloat accounting procedures in much the same manner as prescribed by the NAVCOMPT. However, in doing so he amplifies the Comptroller's procedures to a point of considerable detail. Because the OPTAR does not cover repair parts, all requisitions for repair parts are posted to the Requisition/OPTAR Log without a change in the balance. Under these procedures, the type commander must rely heavily on the reports of EOB status provided by the NRFC and on the consumption reports received from the individual unit.

The objectives of COMCRUDESLANT are twofold: (1) maximum control of the utilization of operating funds; and (2) maximum inflow of data for the substantiation of funds requirements. Expenditures of a prior year form the basis for the next budget request. Therefore, the maximum amount of data is required to ensure adequate budget formulation.

Expenditures are controlled in a centralized manner through the detail of the PICA and OPTAR procedures. Because of this, the afloat manager's requirement to make a financial decision is limited. In this environment the real function of the afloat manager is to insure that instructions are carried out and that the data submitted are accurate in their makeup. As a material manager he has more room to exercise his initiative and ability through his relationship with the supply system that is providing his material. In this area there is a great need for aggressiveness and initiative.

The real barometer of the CRUDESLANT system is the comparison of the consumption of materials and the cost of material replacement. The SIM system and the replacement policy of the type command provide for a very close correlation of consumption and funds requirements. In the CRUDESLANT system this is one of the key measurement tools.

The rationale behind the free issue of repair parts has its roots in the time constraints placed by a quarterly OPTAR. The issuance of a quarterly OPTAR presupposes that the funds requirement will be of an even nature and, therefore, funds can be apportioned. This quarterly requirement develops from the Congressional requirement that funds be made available on a quarterly basis. In practice, funds requirements are erratic in nature. Ships preparing for deployment have abnormally heavy requirements as do ships engaged in heavy operations. The CRUDESLANT procedure recognizes these problems and, thus, funds by actual consumption. Consumables are funded by OPTAR because, by their nature, they are controllable. In this area, managers are able to exercise controls that provide for constant streams of expenditures.

The major problems being experienced under the financial/material management procedures center on an inability to obtain an even funds flow, an inability of ships to carry out the decision rules of inventory management, and the apparent inability of ships to gather and report consumption data properly. The following portions of COMCRUDESLANT messages point out these problems:

1. During FY 67, total obligations exceeded consumption in CCDL (CRUDESLANT) ships by more than $4.7 million. Navy position in BuBud and DOD review has been that funding shortfalls from year to year have necessitated eating down shipboard stocks with resultant detrimental effect on fleet readiness. This $4.7 million obligation in excess of consumption would appear to refute this position, and at face value indicate stock buildup vice eatdown.

2. In addition to disparity in consumption/obligation rate, excessive amounts are tied up in SIM inventories. On-hand quantities of SIM items almost without exception exceed prescribed on-hand computed IAW (in accordance with) ref (A) (PICA procedure).

3. Funding deficiencies are a continuing problem in force as stated by . . . Justification of requirements for funds and allocations of funds on equitable basis difficult in view of inadequacies noted para 1 and 2 above. First quarter FY 68 consumptions also lags obligations. Information from higher authorities indicates likely FY 69 apportionment will be structured on FY 68 consumption. Using first quarter figures, projection for FY 68 indicates obligations will exceed consumption by 5 million dols. This means force could be funded in FY 69 at figure significantly less than FY 68.

4. Orig. /originator/ considers consumption data substantially understated in force. This probable result of inadequate attention to consumption data aboard ships. To remedy this addees must thoroughly review internal procedures to ensure:

(A) All items ordered against OPTAR and MARP are consumed on NAVSUP 1250 /Single Line Item Consumption/ Management Document/. At time of issue to end user regardless of FY when ordered. This applies to equipage as well as consumables, repair parts, and services.

(B) NAVPERS 1250's are transmitted to orig on a weekly basis.

(C) NAVPERS 1250's are accurately and completely filled out as required by . . .[1]

Another example of the problems of the no-OPTAR approach for repair parts procedure is the following message:

1. July repair part obligations for force exceeded normal monthly obligation rate by half a million dollars. This excessive obligation rate if unchecked could place the TYCOM in over-obligated position and jeopardize TYCOM's ability to continue repair parts replacement policy. . . .

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[1] COMCRUDESLANT message Date Time Group 171951 Z, October, 1967.

> 2. To preclude over-obligation while this unusual increase being investigated a maximum authorization for repair parts (MARP) for first quarter FY 1968 will be assigned by separate message.
>
> 3. Responsibility of all levels of command to maintain fiscal integrity and ensure compliance with TYCOM funding policies is reemphasized. . . . Preparation for deployment is not repeat not justification for violation of repair part replacement policy. . . . Must be complied with. [1]

Both messages point out the three problems mentioned above and, more important, the dependence of the problems. The material management rules set by the type commander have been geared to provide an obligation consumption rate that, on the average, should equal out. When, as pointed out by both messages, they do not, it is a case either of not carrying out the material management rules or of not reporting consumption. Both of these areas are managed at a very low level of operations. The material management decision of when to replenish stock is set in motion by the storekeeper in charge of the stock record cards. The consumption document is originated at the mechanics level or by a division storekeeper and its route through the ship is lengthy with the possibilities of loss high.

At the shipboard level, errors in either of these areas do not come to light in a short-run period, and if they are infrequent they will not be detected at all. However, at the type commander level they become a problem of major proportions. As pointed out in the messages, the historical value of consumption is one of the big determinants of future allocations.

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[1] COMCRUDESLANT message Date Time Group 081845 Z, August, 1967.

The funds flow problem has been one of the major problems of all OPTAR systems. It again is tied to the material management procedure and goes back to the inadequate or improper use of decision rules or a local decision to "stock up" in anticipation of heavy future demands due to planned operations.

These problems point out that when financial restraints are eased in preference to a control through material management procedures, financial over-obligation has been the result.

Financial Management Procedures in PHIBLANT

The funding and financial management policies of the Commander, Amphibious Force, U.S. Atlantic Fleet, differ greatly from those discussed above. PHIBLANT has used an Annual Planning Figure (APF)[1] as the basis for OPTAR allocations. This policy is expressed as follows:

> 1. In the past, COMPHIBLANT has assigned APF's to PHIBLANT ships and units giving the Commanding Officer the widest possible latitude in expenditure authority. Normally, the basic APF will not be increased. Deficiencies identified during supply overhauls have been funded separately depending on availability of funds.
>
> 2. . . . While it is not the desire of COMPHIBLANT to usurp the prerogative of Commanding Officers in expenditure of APF's, it is desired to establish a basic policy that will permit assignment of priorities to requirements.
>
> 3. . . . Increased Commanding Officer attention must be directed toward the analysis of the percentages of APF funds

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[1] The APF represents the anticipated annual requirement of a ship for all materials chargeable to the OPTAR. On the basis of the APF, the ship is granted funds for the twelve-month period. Hereafter Annual Planning Figure will be referred to by the acronym APF.

obligated for consumables. Individual ships must be prepared to provide detailed justification for excessive consumable obligations.[1]

COMPHIBLANT has assigned responsibilities to the squadron and division commanders to:

1. Ensure strict adherence by his ships to the type commander's repair parts policy. This is to be done by a thorough review of consumption management reports and readiness reports generated by the type commander.

2. Ensure that the funds granted obtain maximum maintenance and readiness of his ships.[2]

In addition to the above, the commanding officers of the force have the responsibility to ensure:

1. That all financial and material management problems are promptly brought to the attention of the squadron commander.

2. That a sound financial spending plan for the year is established.

3. That a program which may be followed by subsequent commanding officers to improve readiness and habitability of the ship or unit is established.[3]

COMPHIBLANT has established a funding priority for his ships. These priorities are summarized as follows:

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[1]Commander, Amphibious Force, U.S. Atlantic Fleet, PHIBLANT Resource Information Supply Management Manual (PRISMM), p. 3-3.

[2]Ibid., p. 3-4.

[3]Ibid.

1. Replenishment of SIM repair parts and consumables to prescribed high limits as established by the Quarterly Supply Status Report (QSSR),[1] unless higher usage dictates increasing quantities above high limits.

2. Replenishment of Non-SIM repair parts in accordance with prescribed procedures.

3. Requisitioning of NIS/NC (not in stock/not carried) repair parts for immediate installation where the readiness of the ship is impaired.

4. Requisitioning of other DTO (direct turnover) requirements for immediate use. (NC consumables, equipage with a unit cost of $100 or less, habitability improvements, etc.)[2]

The APF policy was initiated during Fiscal Year 1966. As a policy it has been judged successful by the type commander in that paperwork requirements have been eased at both the staff and shipboard levels. The major problem has been a tendency for ships to spend heavily in the first quarter and then ease off for the remainder of the year.

The factors contributing to the granting of the APF are:

1. Funds available for distribution

2. Consumption data

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[1] See Appendix B for definition.

[2] PHIBLANT Resource Information Supply Management Manual, p. 3-5.

3. Individual funding requirements for known repair parts shortages.

The grant will be promulgated during July of each fiscal year. In the interim period, each unit has the authority to obligate funds based on the previous year's levels.

The type commander places restrictions on the spending of funds through the requirement that each ship prepare and submit an annual spending plan which must be submitted within thirty days of the initial APF grant. The plan will include the anticipated expenditures of the ship by quarter. Expenditures are restricted as follows:

1. No more than 65 per cent of the APF may be spent prior to January 1.

2. No more than 85 per cent of the APF will be obligated prior to April 1.

3. The plan in no case will exceed the total APF.[1]

To ensure that the annual spending plan is prepared with some care and forethought, the type commander has put a 5 per cent boundary of deviation from the plan. If it is known that the expenditures will exceed the plan by 5 per cent, a revised plan must be submitted for approval.

Items of equipage are normally funded at the type commander's level; however, the commanding officer of a unit may purchase equipage whose unit cost is $100 or less. Habitability improvements are not

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[1] Ibid., p. 3-6.

generally to be purchased with APF funds; however, if the ship's readiness will not be impaired through the use of funds for habitability purposes, the commanding officer may expend funds for this purpose.

PHIBLANT accounting procedures follow basically the NAVCOMPT procedures. In addition to the NAVCOMPT prescribed files, each PHIBLANT ship will maintain an annual spending plan correspondence file that will contain copies of all correspondence on the annual spending plan.

PHIBLANT inventory control requirements are directly related to the financial management policies discussed above. The type command operates broadly within the structure of the PICA procedures. To ensure that material consumption can be related to obligation rates, the type commander has set a number of guide lines as to how stocks are to be replenished. The more important of these instructions are as follows:

1. SIM qualified repair parts and consumables will be replenished when the on-hand balance reaches the low limit. The quantity reordered will bring stocks to a ninety-day combat endurance level /the high limit/ for both repair parts and consumables.
2. Non-SIM items having an allowance and on-board quantity of two or less must be reordered after each issue.
3. Non-SIM repair parts having an allowance and on-board quantity of three or more will be reordered when a balance of one (or quantity usually requested) is reached. At that time, the lowest unit normally issued will be ordered.
4. Non-SIM consumables will not be stocked or reordered except for specific items designed "mission essential" by the commanding officer.
5. Not-carried repair parts /those for which there is no allowance/ will not be procured except for the following reasons:

a. When required to accomplish immediate maintenance action.

b. When the item has received enough demand /above/ to be stocked as a SIM item. . . .[1]

In other areas of material management, the PICA procedures are carried out without modification.

The stated purpose of the APF concept is to allow the afloat commanding officer the widest possible latitude in expenditure authority. At the same time, it is the intent of the type commander to make the commanding officer aware of the necessity for long-range financial planning. This awareness is not necessarily present when funds are granted on the traditional quarterly basis or when no limit is placed on expenditures, as is the case of the COMCRUDESLANT procedure.

Similar to the COMCRUDESLANT procedure, the financial management procedures of COMPHIBLANT are subordinated to the requirements of the material management system. The commanding officer is directed in his financial systems by the strict requirements of the material management system. In this atmosphere finance becomes a constraint on material effectiveness, rather than a contributor to it. Thus, the system employed becomes basically an accounting and reporting system used for management purposes at the type commander's level.

Nevertheless this system has an advantage over that of the COMCRUDESLANT procedure in that the financial constraint does act as

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[1] Ibid., p. 5-4.

a factor in maintenance decisions. In the no-OPTAR situation, the maintenance man has an unlimited resource for repair parts. In this atmosphere his decision is based, theoretically, on the felt requirement to replace a part. Implicit in this decision is the fact that he does not have to justify his decision on a dollar basis or compete with other maintenance decisions for the funds to finance his needs. When a dollar limitation is placed on resources, the user of the resource must change his behavior and include the financial constraint in his maintenance decision system.

Major Studies Undertaken To Improve Financial Management in the Fleet

In the past three years, two major efforts have been made by the Navy to improve financial management procedures and the financial management workload in the fleet. The first of these was the design and development of the Supply and Equipage OPTAR accounting system, which was implemented on July 1, 1965. This system shifted a large portion of the accounting workload from the afloat units to the NRFC's and standardized accounting procedures among the various type commanders.

At the same time that these procedures were being developed, the SECNAV directed that a Navy Logistic Support Task Force be formed to study the logistics problems in the Operating Forces.[1] This task force was directed to attain nineteen objectives of logistics improvement. The

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[1] U.S., Department of the Navy, Office of the Chief of Naval Operations, Material Support Steering Committee, Establishment of, December 16, 1964.

Secretary's plan was translated into the Navy Logistic Support Improvement Plan[1] which promulgated the organizational structure of the task force, defined the objectives to be met, and promulgated a milestone plan. The steering committee for NAVLOGSIP was made up of the Assistant Secretary of the Navy (Installations and Logistics), the Deputy Chief of Naval Operations (Logistics), and the Chief of Navy Material.[2]

Objective 6 of this plan, entitled Accounting Ashore, was to remove accounting and bookkeeping workloads from ships through the Deputy Comptroller of the Navy providing the Operating Forces and budget activities, from computer activities ashore, all needed dollar accounting or bookkeeping services--e.g., financial records of receipts, inventories, and expenditures of all material stocked and issued in ships. The working group assigned to Objective 6 was made up of representatives of all ashore and afloat organizations that had an interest in accounting in the Navy. The Operating Forces were represented by the two major fleets. This group approached the objective by setting out:

1. To define dollar accounting functions in ships.
2. To identify those dollar accounting jobs to be removed.
3. To show how the job will be done when removed.
4. To insure that the results of the system adequately cover management needs.

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[1]Hereafter the Navy Logistic Support Improvement Plan will be referred to by the acronym NAVLOGSIP.

[2]Department of the Navy, Material Support Steering Committee, Establishment of, par. 3.

Of thirteen dollar-accounting jobs identified in the fleet related to the O&MN, the four related to the funding and management of supplies and equipage are:

1. Consumption accounting S & E financed material.
2. Consumption accounting - non-S & E financed material.
3. Inventory accounting as derived from 1 and 2 above.
4. OPTAR accounting procedures.[1]

Of these items, 1 and 2 were found under study by the fleet commanders under a program that was later to become ACCESS, and item 3 was related to the PICA procedure that had been installed on July 1 of that year (1965). This left the S & E OPTAR area as the focal point of accounting identified with O&MN. This question became agenda item 5 of the work group.

The study approached the OPTAR problems from two views, both of which had the objective of cutting the accounting workload afloat. The central issue of the workload problem afloat was judged to be the requirement for ships to reconcile all differences between obligation and expenditure documents and to identify, for the NRFC, those expenditure documents that could not be matched with an obligation document. Two methods proposed for solving this problem were:

1. Removing it by making all issues to fleet units APA (free issue).

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[1]U.S., Department of the Navy, Action Officer, NAVLOGSIP Objective 6 (Dollar Accounting), Navy Logistic Support Improvement Plan Objective 6, October, 1965.

2. Deemphasizing afloat accounting by requiring ships and other units to report receipts, inventories, and expenditures to a computer installation ashore.

Item 1 was directly related to NAVLOGSIP Objective 5, which was concerned with the redesign of Navy stock fund accounting.[1] Under this plan, material would be funded under APA procedures.[2] As the material would be issued free, financial accounting would be replaced by consumption accounting. This recommendation was very surprising in view of the fact that the Secretary of Defense had been stressing a need for the full costing of all military programs and an accrual accounting procedure.

A modification of the second alternative became the final proposal by the work group. The proposal followed the S & E OPTAR procedure to the point of performing the reconciliation function. Under the proposal:

1. NRFC's would handle reconciliation functions in their entirety for all ships.

2. The type commander would be charged/credited with all differences in obligation and expenditure documents.

3. Unidentified expenditure documents would be held in suspense vice being lodged against the type commander's operating budget and the NRFC would provide a listing of these documents to the ship and type commander for identification.

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[1] See Appendix B for description.

[2] See Appendix B for description.

4. Cancellations would be handled in the same manner as before.

5. The type commander would certify to the gross adjusted obligations vice the ships.

6. The monthly Budget/OPTAR report would be discontinued.

7. Outstanding obligations would be processed in the same manner as before.[1]

Under this proposal, the type commander would absorb/benefit from the net difference in obligations and expenditures and assume all responsibility for investigating all unusual charges.

This procedure received a cold reception in the fleet. A summary of their comments follows:

> 1. . . . Does not accomplish the stated objective of transferring accounting functions from ships to NRFC's. What it would do is transfer minor reconciliation review from ship to the TYCOM. . . .
>
> 2. The minor amount of workload to which the proposal is addressed can be removed only at the expense of fiscal responsiveness, accuracy, and control. The proposal mentions elimination of the budget monthly Budget OPTAR report. The obligation and consumption data reported on the Budget OPTAR report is the basis of several ACCESS reports. If eliminated, it would have to be replaced by an identical report through different channels with no savings to the ship. TYCOM's need for these data stems from the following:
>
> a. A month requirement for a complete and accurate fix on the current gross adjusted obligation rate. This figure is reviewed at all budgetary levels. Unfortunately, due to delaying factors, the ship is the only source of current information on total obligations at any single point in time. . . .
>
> b. A requirement for current information on total consumption recorded by the ship as a validity check against the individual document submittals to ACCESS. Experience during the ACCESS test period proved that most ships were submitting incomplete consumption data. . . .

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[1] These proposals have been summarized from an undated memorandum to the file of the Objective 6 study group.

3. In summary, the actual workload currently placed on ships for OPTAR accounting purposes appears minimal. There is no immediate benefit to be gained through revising the system as outlined in the proposal. [1]

Although the study group held the view that the proposal did meet, in the best manner possible, the objective sought, priority on this project was reduced until such time that ACCESS was fully installed and working. The April 10, 1967, NAVLOGSIP Objective 6 Status Report to the Navy Logistics Support Steering Committee, after citing the effect of RMS implementation, recommended that consideration be given to discontinuing the inclusion of the S & E OPTAR accounting subject under the goals of NAVLOGSIP. [2]

The NAVLOGSIP Objective 6 study was not successful in meeting its mission. The reason for its failure is very significant to anyone who desires to improve the financial management processes in the Operating Forces. Basically, the reason that the study failed to produce change can be found in the very nature and complexity of the Naval Establishment. Even though the study group was formed at the direction of the SECNAV and was sponsored by the CNO, the group could not overcome the vast complexity of the organization and its interface with the entire defense

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[1] This summary was taken from an undated document in the Objective 6 study group correspondence file.

[2] Memorandum from the Action Officer, NAVLOGSIP Objective 6 (Dollar Accounting), NCFS-1, dated April 10, 1967, to Secretary (MAT 04B) to the Navy Logistics Support Steering Committee, Subject: NAVLOGSIP Objective 6 Status Report.

establishment sufficiently to accomplish its mission. At the time of the study, several other major projects were under study or in an implementation phase. The most significant of these was RMS, a Department of Defense-directed study. As the Objective 6 group was working toward simplification of fleet level financial management, RMS was moving to accrual accounting and the full measurement of resources. Further, RMS was a truly dynamic program that was proposing system reorganization and conceptual changes on an almost daily basis. Because of this, the Objective 6 group had no real base from which to work.

A second program was the ACCESS study which had the potential through the collection and analysis to consumption data and inventory effectiveness, of reducing the financial management needs. Because ACCESS was in a test stage at the time of the Objective 6 study, it, too, provided an illusive base from which to build.

When viewed academically, it is of interest to note that the study group did not challenge the OPTAR or material management concepts of the existing system. Their approach to the study accepted these concepts as being the best for the situation; because of this the group concentrated on improving the existing systems rather than belaboring the issues involved. Further, the response to recommendations received from the type commanders did not challenge these concepts.

Summary

Early in this chapter the objectives of the NAVCOMPT OPTAR accounting system were cited. Briefly, they are twofold: to determine the costs of operations in terms of resources applied and to establish a system of monetary controls that aid management in its task of controlling resources application. The system developed to meet these objectives is the S & E OPTAR Accounting System. Within the framework of this system, type commanders have been allowed to deviate from procedures when they feel that their particular circumstances dictate a modified approach. The differences of the two type commanders studied are summarized as follows:

1. Accounting procedures: Both type commanders follow the basic format of the S & E OPTAR system. Numerous internal mechanical procedures vary but outputs are identical.

2. Method for allocating funds: Major differences in philosophy exist. The NAVCOMPT system prescribes a quarterly allocation of OPTAR funds. This system has its roots in the appropriation apportionment process and the legal requirements imposed by the Congress through Section 3679 of the Revised Statutes, "Administrative Control of Appropriations Within the Department of Defense." COMCRUDESLANT allocates funds for consumables and equipage items only. Repair parts are funded centrally. This system is controlled through the monitoring of consumption reports submitted

by ships of the command. The philosophy of this system is to allow maximum freedom on the part of the maintenance man in his maintenance decision processes. COMPHIBLANT allocates funds annually on the basis of a planning figure submitted by the ship's commanding officer. The philosophy of this system is to encourage the use of planning in the maintenance function and to add flexibility to the plan by extending the time-frame to one year.

3. Financial management of repair parts: The S & E OPTAR accounting procedure does not provide accounting procedures for the dollar management of repair parts and consumables carried in stock aboard ships. Because of this, the inventory is managed by the use of a decision that controls quantity input into the system. The basis for this procedure is the PICA inventory control system discussed in Chapter IV. Financial control is therefore limited to the accurate application of accounting procedures.

The differences in the two systems center on the method of allocation of funds. The CRUDESLANT procedure implicitly states that the application of repair parts should be based solely on a maintenance decision. Consumables can be applied to the operation in a controlled manner and therefore should be controlled through financial systems. Overlapping this system is the ACCESS system that gathers data on consumption. The ACCESS system is by nature a reporting system and not a management control tool of the local manager. The PHIBLANT procedure states that

the maintenance function is controllable and should be planned in advance through an annual planning system. In this system ACCESS operates in the same manner as mentioned above.

Neither system has proven to be superior to the other. Conceptually, the PHIBLANT system is more desirable. It attempts to establish a system of monetary control on the user of resources in a manner that will aid him in his task of controlling the resource. In this setting the maintenance man must evaluate each maintenance action in terms of the cost/benefit relationship. The CRUDESLANT system assumes that the maintenance man will intuitively make this analysis. The ACCESS procedure results in a historical report of the results of these two different systems. While it tells top management where the money has gone, it is of limited value in providing guidance in the daily routine of maintenance.

Both systems appear to be hampered by the requirement for detailed documentation of all transactions. Both type commander operating manuals stress the need for accuracy and the adherence to procedures. The CRUDESLANT messages discussed in this chapter further stress this need. One of the objectives of the NAVLOGSIP study was to reduce the need for detailed accounting that causes problems. Achieving this objective is difficult, however, because of the legal requirements of the appropriation accounting system. Further, type commanders themselves are impressed with the idea that they must have a volume of detail data if they are to do their jobs. The reply to the NAVLOGSIP proposal points this out.

CHAPTER VI

FINDINGS AND RECOMMENDATIONS

The major findings of this paper are as follows:

1. Financial management as it exists in industry and at the central levels of government does not exist at the supply and equipage management level in the Operating Forces of the Navy. Budgets are based on past performance and are executed through the use of material management decision systems. The factors of long-range planning or capital budgeting are not present.

2. Legal requirements of the appropriation accounting system as well as Congressional demands hamper systems design and make strong centralized control systems necessary. These centralized systems are used to control operations that are decentralized in location and otherwise operate under decentralized organizational concepts.

3. Governmental budgeting requirements are based on detailed justification of all requests. This necessitates the collection, on a continuing basis, of volumes of operating statistics.

4. Change is a difficult process in the military. Bureaucratic structure, size, politics, and lack of funds defeat most proposals for change from their inception. In the case of financial management in

the Operating Forces, change has additionally been hampered by an inability to view the problem from a conceptual level.

5. Within the framework of the present financial management systems, there is no evidence that the various deviations from the NAVCOMPT procedure are superior or inferior. Conceptually, the PHIBLANT procedure is superior because of its requirement for planning maintenance actions over a meaningful period of time.

6. The present system does not meet the objectives for which it was written.

Environment, legal requirements, military requirements, and the constant shortage of appropriated funds make improvements in financial systems most difficult. The following recommendation is made with these constraints in mind. The recommendation is designed to meet what this paper has determined to be most important needs in the Operating Forces. These needs are summarized as follows:

1. A system that will produce the data requirements of RMS in the Operating Forces. NAVCOMPT has set forth the basic objectives of such a system as a system that will:

a. Determine the cost of operation of an operating unit in terms of total resources to be applied.

b. Establish a system of monetary controls that will be of maximum value to management in ensuring that resources are used effectively and efficiently in the accomplishment of the mission of the operating unit.

2. A system that will reduce the total accounting work load in the Operating Forces with first priority on reduction at the shipboard level.

3. A system that will more clearly meet the legal requirements of appropriation accounting and Section 3679 of the Revised Statutes.

4. A system that will place the responsibility for funds obligation with the manager responsible for operating performance. In this case the responsibility must be placed with the maintenance manager.

Within these criteria the following afloat financial management systems are proposed. Because of the scope of the subject, it is possible to deal in concepts only. The basis of this recommendation is the severing of the tie between daily operating requirements and the afloat inventory management system. By taking this action the objectives of a resource management system will be more visible. This division will allow for the design of a maintenance budgeting system and the capitalization of afloat inventories into a stock fund.

Maintenance budgeting. --Good management control concepts dictate that there be a method for clearly measuring the performance of cost centers. This can be accomplished by removing the inventory management from the funding system. The proposed budgeting system would resemble the current OPTAR system, the basic difference being that all customer requests for material or services would be posted to the budget log. In this way the budget balance would decrease as issues of parts are made to

accomplish maintenance actions. Requirements for not-carried items would be posted at the time funds were obligated for their procurement. Through this system:

1. Consumption would be reported at the time of demand.

2. The budget log would provide a balance check on the value of consumption documents submitted for ACCESS or a budget log report could replace the requirement for the submission of consumption documents.

3. The replacement report for the current Budget/OPTAR report would show only consumption vice the present report of DTO consumption and stock replenishment.

4. Responsibility for the control of consumption would be clearly placed with the maintenance organization.

5. The supply officer would be removed from the position of responsible officer and be placed in the position of controller or fiscal officer.

Inventory management. --With the inventory management system removed from the OPTAR concept, it would be possible to capitalize existing afloat inventories into a fleet stock fund. For greatest flexibility this should be done at the fleet commander level. The concept for operating this system would be as follows:

1. A two-level fund to allow for fast turnover SIM stocks and the slower turnover allowance based stocks.

2. Stock fund reimbursement by shipboard maintenance activities at the time of issue. The accounting transaction to take place at the NRFC level.[1]

3. Stock replenishment based on material management rules similar to those presently used. These transactions would be identified at the NRFC level by fund codes.

4. Shipboard stock levels controlled by the use of financial inventory control ledgers at the fleet commander level. This ledger would be opened with the current balance of inventory values, increased by reports of procurement from the NRFC, and decreased by the monthly summary of issues to the maintenance organizations.

5. Dollar values of inventories arrived at by the application of several different investment formulas currently in use in the Navy.

This system would have the following advantages:

1. The removal of shipboard inventory funding from appropriation accounting controls and the restrictions of the 3679 Statute.

2. A reduction of the afloat accounting work load through the transfer of the reconciliation function to the fleet commander level. This would undoubtedly lead to a computerized reconciliation procedure.

3. Increased flexibility in the handling of stock deficiencies.

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[1]Current accounting procedures provide for a summary transaction in situations where material is moved outside the supply system and financial reimbursement is required. This system would work well with this recommendation.

Conceptually, this recommendation meets the requirements of a responsive afloat financial management system. The current system of OPTAR funding of both daily operations and inventories will never allow for the management of resources as its objectives state. Without a change in the conceptual approach to the problems of afloat financial management, all recommendations will result in the application of more controls on an already over-controlled system.

APPENDIX A

GLOSSARY OF ACRONYMS

ACCESS	Afloat Consumption, Cost and Effectiveness Surveillance System
ADMINO (ONR)	Administrative Office, Office of Naval Research
APF	Annual Planning Figure
CINCLANTFLT	Commander, U.S. Atlantic Fleet
CINCPACFLT	Commander, U.S. Pacific Fleet
CINCUSNAVEUR	Commander, U.S. Naval Forces Europe
CNO	Chief of Naval Operations
COMCRUDESLANT	Commander, Cruiser-Destroyer Force, U.S. Atlantic Fleet
COMPHIBLANT	Commander, Amphibious Force, U.S. Atlantic Fleet
CRUDESLANT	Cruiser-Destroyer Force, U.S. Atlantic Fleet
EOB	Expense Operating Budget
FYDP	Five-Year Defense Plan
MARCORPS	U.S. Marine Corps
NAVAIR	Naval Air Systems Command
NAVCOMMCOM	Naval Communications Command
NAVCOMPT	Navy Comptroller
NAVFAC	Naval Facilities Engineering Command

NAVLOGSIP	Naval Logistics Support Improvement Plan
NAVORD	Naval Ordnance Systems Command
NRFC	Navy Regional Finance Center
OPTAR	Operating Target
O & MN	Operation and Maintenance, Navy (Appropriation)
PICA	Procedure for Inventory Control Afloat
PHIBLANT	Amphibious Force, U.S. Atlantic Fleet
RMS	Resource Management Systems
SECNAV	Secretary of the Navy
SOAP	Supply Operations Assistance Program

APPENDIX B

DEFINITION OF TERMS

ACCESS - Afloat Consumption, Cost and Effectiveness Surveillance System. An automated system to collect and summarize consumption, inventory, fiscal, and material deficiency data. ACCESS provides type commanders with the capability to monitor inventory and financial management effectiveness in ships.

APA Material - Material purchased by the systems command, or bureau, which is charged directly to the purchasing appropriation and held at a statistical cost in the supply system. These items are issued "free" to the Operating Forces. At the time of issue, cost accounting procedures are used to identify the end user. See NSA Material for the definition of chargeable material.

Budget Activity - The major function breakdown of an appropriation. The Congress appropriates funds to this level.

CNOBO - Chief of Naval Operations Budget Office. Responsible for the administration and suballocation of all O&MN funds and operating resources to carry out CNO approved programs. CNOBO is the CNO agent for allocation of resources through the chain of command.

Cost Center - The first subdivision of a responsibility center, identified by a unit identification code. All ships and staffs are cost centers under a type commander, a responsibility center.

EOB - Expense Operating Budget. The annual budget of a responsibility center under a FYDP Program. Type commanders will assign EOB's from the expense limitations provided by fleet commanders. These EOB's will be held at the type commander level. OPTAR's will be assigned from EOB's.

Equipage - Items of equipment that require specific management controls afloat because of their high unit cost, vulnerability to pilferage, or essentiality to ship's mission. Examples of equipage are: binoculars, cameras, portable electronics test equipment, and navigation instruments.

Expense Element - A category of expense represented by a fund cost (NSA repair parts, TAD training, and APA material and equipment are representative of expense elements).

Expense Limitation - The maximum amount of money that may be expended by a type commander within a FYDP program. EOB's are created from expense limitations.

Fund Code - A two-character code representing an expense element. The first character represents the expense limitation holder and FYDP program; the second character represents the expense element (as in AC, "A" represents COMCRUDESLANT Program II and "C" represents NSA consumable material).

Funds Flow (in Operating Forces) - Funds flow from the Fleet Resources Office to the major fleet commands. These commands in turn suballocate the funds to the major responsibility centers of their command, the type commanders, as an expense limitation. Type commanders issue EOB's to stations and activities under their command and issue OPTAR's to the fleet units of their command.

FRO - Fleet Resources Office. The office under the Chief of Naval Material responsible for issuing funds to the operating commanders (CINCLANTFLT, CINCUSNAVEUR, etc.).

FYDP - Five-Year Defense Plan. The summary of approved five-year fiscal programs of the Department of :Defense.

General Ledger - The book of accounts in which all Expense Operating Budget accounting entries are ultimately summarized. A general ledger will be maintained for each Expense Operating Budget by the assigned accounting activity. The accounts of the general ledger provide a single overall control for the Expense Operating Budget and unfilled orders citing the Expense Operating Budget.

Insurance Item - An item carried aboard ships that does not have a demand sufficient to justify stockage but because of its essentiality to the ship's mission is carried as insurance.

Investment Costs - Items that exceed a $1,000 unit price, repairable assemblies that are centrally managed (APA repairables), and the initial outfitting of non-investment consumables and repair parts.

MPN - Military Pay, Navy. The congressional appropriation which includes military pay, allowances, travel, etc. All expenses chargeable to MPN will be statistically charged to the using cost center.

Naval Ships Systems Command - A technical command of the Naval Material Command responsible for planning, designing, procurement, maintenance, and repair parts provisioning of ships and their complete installed equipments. Prior to May, 1966, NAVSHIPS was the Bureau of Ships.

Naval Supply Systems Command - A technical command of the Naval Material Command responsible for all facets of procurement, control, and equipage throughout the Naval Establishment. NAVSUP also provides technical guidance in all matters of material management to the Operating Forces. Prior to May, 1966, NAVSUP was the Bureau of Supplies and Accounts.

NSA Material - Material purchased by a revolving fund called the Navy Stock Fund. Upon purchase, the material is held financially in the Navy Stock Account. NSA material is purchased from the stock account by OPTAR funds. Afloat, NSA items are referred to as chargeable items.

Obligation - The estimated cost of an order for chargeable material. An obligation reduces funds available. When funds are expended to liquidate an obligation, an expense is incurred.

O&MN - Operations and Maintenance, Navy. The annual congressional appropriations (17-1804) from which the operating and maintenance costs of the Navy are funded. All EOB's and OPTAR's are assigned from O&MN funds.

OPTAR - Operating Target. The amount of money given to a cost center from which specified operating and maintenance costs must be funded. OPTAR's are granted through the chain of command from EOB's held by type commanders.

Program - One of nine mission-oriented programs within the FYDP designed for the accomplishment of a specific objective.

Provisioning - The process of determining the range and depth of an item (i.e., repair parts, special tools, test equipment, and other equipage, and consumables) required to support and maintain an item of equipment for an initial period of service. Its phases

include the identification of items of supply, the establishment of data for catalog, technical manual, and allowance list preparation, and the preparation of instructions to ensure delivery of necessary support items with related end articles.

QSSR - Quarterly Supply Status Report. A material management report that shows, by item, the last six months' demand, on-hand quantity, and on-order quantity of all SIM items.

Resources - The men, money, material, and services required by a unit in the performance of its mission.

Responsibility Center - The lowest organizational level having a significant influence on expenses and for which expense operating budgets are prepared. Type commanders are a responsibility center.

Statistical Expense - An expense lodged against a cost center which does not reduce the EOB of the responsibility center. Fuel, military personnel costs, etc., are statistical expenses. Statistical expenses help reflect the true total cost of operating a cost center.

Subhead - The four alpha-numeric characters following an appropriation (as in 1781804.602C, 602C is the subhead). The first two characters ("60" in the above example) represent the operating commander (in this case, CINCLANTFLT), the third character ("2" above) represents the FYDP Program (Program II), and the last character ("C" above) represents the expense limitation holder (in this case, COMCRUDESLANT). All expense limitations held by COMCRUDESLANT will have a subhead of 60-C; those held centrally by CINCLANTFLT will be 60-A.

Type Commander - Command responsible for the operational and material readiness of ships assigned to him by class, type, or similarity of mission. The type commander schedules and conducts operational training, maintenance, overhauls, supply overhauls, and sets policies and criteria for accomplishment of overall operational and material readiness of assigned ships. In addition, the type commander is the source of funds for his ships to procure operating supplies. The type commanders report directly to the two fleet commanders. They are not laterally connected.

Unfilled Orders - Obligations outstanding. On the last day of the fiscal year the total value of unfilled orders will be carried forward and increase the value of the responsibility center EOB for the next fiscal year. This system permits the recording of an expense in the fiscal year in which the bill is paid, rather than the year

in which the obligation is incurred, thus shifting the Navy from obligation accounting to expense accounting.

UIC - Unit Identification Code. A five-digit number used to identify those activities and commands which may be charged through the accounting system. Each cost center (ship or unit) has a unique UIC. Each UIC falls under only one FYDP program and can receive an OPTAR only from an EOB under that program.

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